Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005

Annual Report

2017

Our Mission

- **Enhance customer satisfaction** through delivery of high quality products that meet **world safety standard**

- Be a **socially responsible employer** by providing **safe and pleasant** working environment to workers

- Be **environmentally responsible** in all its manufacturing processes through **recycling** and **adherence** to international environmental protection laws

- Optimise shareholders' return by pursuing **business growth, diversification** and **productivity enhancement**

Content

Corporate Profile

Danang City, Vietnam
First Plant

Danang City, Vietnam
Second Plant

MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design and a manufacturer of lighting products. Currently, the Group operates four plants in Vietnam. As at 31st December, 2017, the Group employed approximately 14,000 staff in Hong Kong, Macau, the PRC, Vietnam, Australia, the United States of America, Canada, Taiwan and Europe. The Shelcore and the Funrise Group, well-established toy companies in designing, manufacturing and selling plastic toys were merged into the Group since 2005 and 2007 respectively.

Danang City, Vietnam
Third Plant

Vinh City, Vietnam
Fourth Plant

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Cheng King Cheung
Tsang Chung Wa
Tse Kam Wah
Yu Sui Chuen
Leung Hong Tai
(resignation effective on 1st April, 2018)

Independent Non-executive Directors

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam *(Chairman)*
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

NOMINATION COMMITTEE

Cheng Yung Pun *(Chairman)*
Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

COMPANY SECRETARY

Lai Mei Fong

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Admiralty Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS

Suite Nos. 223-231
2nd Floor, Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKERS

Bank of China, Macau Branch
DBS Bank (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/matrix/index.htm

STOCK CODE

1005 (Main Board of The Stock Exchange of Hong Kong Limited)

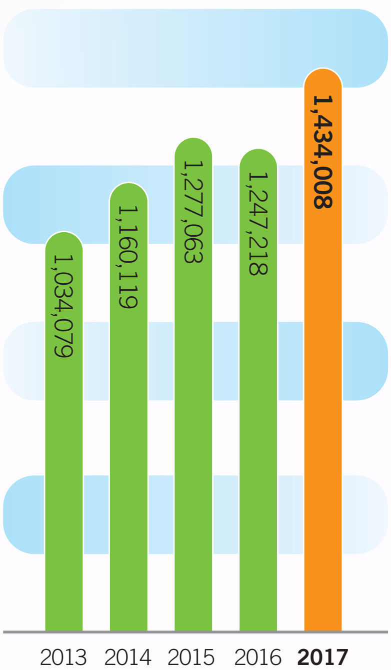
Financial Highlights

Financial Highlights and Key Ratios as of the Year Ended 31st December:

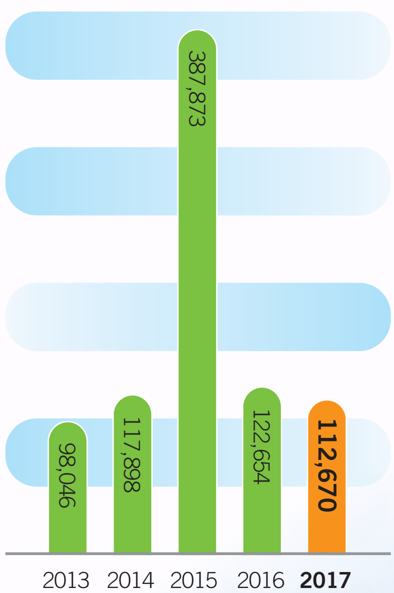
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2017**	2016	% Change
Revenue	**1,434,008**	1,247,218	15.0%
Gross profit	**469,284**	449,285	4.5%
Profit for the year attributable to owners of the Company	**112,670**	122,654	–8.1%
Earnings per share – Basic	**HK15 cents**	HK16 cents	–6.3%
Dividend per share			
Interim, paid	**HK4.5 cents**	HK4.5 cents	0.0%
Final, proposed	**HK5 cents**	HK7 cents	–28.6%
Gross Profit Margin (%)	**32.7**	36.0	–9.2%
Net Profit Margin (%)	**7.9**	9.8	–19.4%
Gearing Ratio (%)	**5.2**	0.1	5100%
Current Ratio	**2.7**	3.6	–25.0%
Quick Ratio	**1.6**	2.0	–20.0%

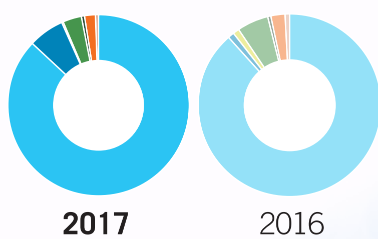
TURNOVER



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

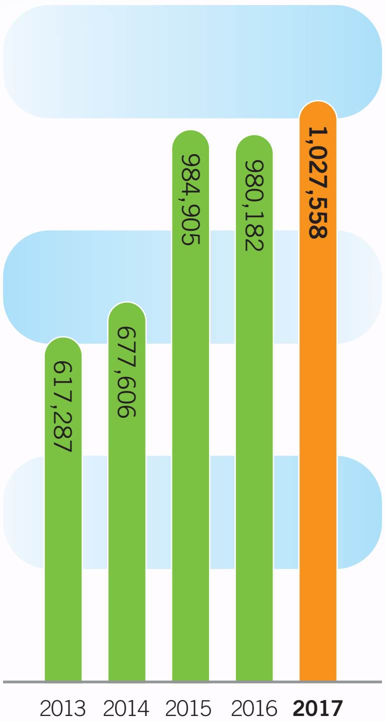


TURNOVER BREAKDOWN BY MARKET

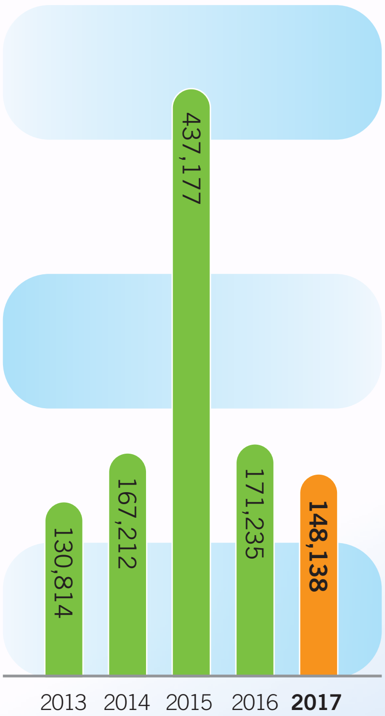


	2017	2016
United States	**87.1%**	87.6%
Europe	**6.3%**	2.3%
Mexico	**0.3%**	0.8%
Canada	**3.5%**	5.6%
South America	**0.5%**	0.8%
Australia and New Zealand	**1.8%**	2.0%
Others	**0.5%**	0.9%

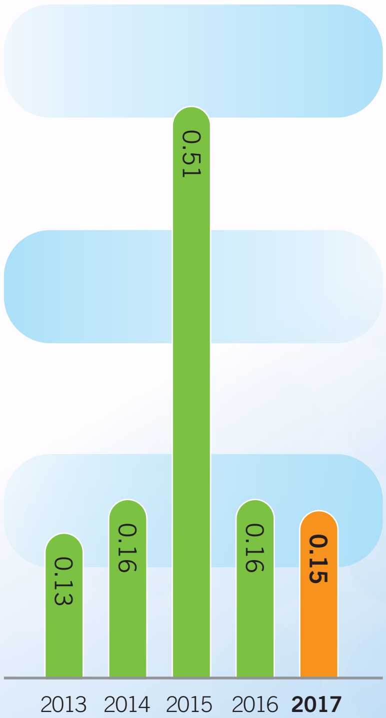
NET ASSETS



EBITDA



BASIC EARNINGS PER SHARE



DEFINITIONS

Gross Profit Margin (%)	=	Gross Profit / Turnover	x 100%
Net Profit Margin (%)	=	Profit attributable to owners of the Company / Turnover	x 100%
Gearing Ratio (%)	=	Total Debt / Total Equity	x 100%
Current Ratio	=	Current Assets / Current Liabilities	
Quick Ratio	=	Current Assets excluding Inventories / Current Liabilities	

Chairman's Statement

To Our Shareholders,

I am pleased to present to our shareholders the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2017.

For the year under review, the Group's consolidated revenue increased by approximately HK$186,790,000 or 15.0% to approximately HK$1,434,008,000 from approximately HK$1,247,218,000 of last year. The profit attributable to the owners of the Company decreased by approximately HK$9,984,000 or 8.1% to approximately HK$112,670,000 from approximately HK$122,654,000 of last year.

During the year under review, the Group recorded an increase in revenue driven increased orders from major customers of Original Equipment Manufacturing (OEM) business in the US. Economic growth in the US has been energetic as private consumption, the main engine of the US economy, has remained strong thanks to low unemployment and higher wages. Such macroeconomic environment has been beneficial to the growth of the Group's overall revenue. Meanwhile, in order to expand its business and market share, the Group has pursued various strategic acquisitions to enrich its intellectual properties, offerings to customers and design capabilities. During the year under review, the Group completed the acquisition of a Taiwan company which owns the related patent rights and specialises in the development of high-end LED products. In addition, the Group acquired a UK company which is engaged in the design, manufacture, marketing and distribution of lighting products with a renowned lighting brand and a well-established marketing and infrastructure team. These acquisitions will be conducive to our business growth by increasing our sales in the European market and expanding our customer base. Overall, the increase of revenue from OEM business and sales of lighting products offset the decrease of revenue from Original Design Manufacturing (ODM) business due to declined sales. As a result, the Group recorded an increase in overall turnover. However, there was a decrease in profit due to an increase in administrative expenses and recognition of share-based non-cash payment charge on grant of options.

The Group remains committed to the proven strategy of focusing its resources and efforts to manage its established brands, while actively pursuing selective new opportunities that are good fits for the Group's core competence, with a view to driving sales and revenue growth and enhancing its long-term profitability. The Company will continue to strive for better return for our shareholders. Looking forward, the Group is confident on its ability to sustain a stable return riding on its core business of toy manufacturing and expansion of lighting business coupled with a sound financial position.

Lastly, I would like to express my sincere appreciation to all of our stakeholders, including shareholders, customers, business partners and suppliers, for their continuous support and trust in all aspects of the Group's activities. I would also like to express my gratitude to the management and the entire staff for their indispensable and enthusiastic contribution and commitment to the Group.

Cheng Yung Pun
Chairman

Hong Kong, 8th March, 2018

Management Discussion and Analysis

RESULTS

As at 31st December, 2017, the Group's consolidated revenue increased by approximately HK$186,790,000 or 15.0% to approximately HK$1,434,008,000 from HK$1,247,218,000 in the last year. The profit attributable to owners of the Company decreased by approximately HK$9,984,000 or 8.1% to approximately HK$112,670,000 from approximately HK$122,654,000 of last year.

DIVIDEND

During the year, the Company paid an interim dividend of HK4.5 cents (2016: HK4.5 cents) in cash per share to the shareholders. The Directors have resolved to recommend the payment of a final dividend of HK5 cents (2016: HK7 cents) in cash per share for the year ended 31st December, 2017, payable to shareholders whose names appear on the Register of Members of the Company on 3rd May, 2018. Together with the interim dividend paid of HK4.5 cents per share, the total dividend per share for the year is HK9.5 cents (2016: HK11.5 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 11th May, 2018 in cash.

FINANCIAL REVIEW

Revenue

The year under review recorded an increase in revenue by HK$186,790,000 to HK$1,434,008,000.

Gross profit

The Group's gross profit increased to approximately HK$469,284,000 as at 31st December, 2017 due to the increase in sales.

Distribution and selling costs

Distribution and selling costs increased to approximately HK$138,719,000 as at 31st December, 2017. The increase in distribution and selling costs was mainly attributable to the expansion in sales team for the toys products.

Administrative and other expenses

Administrative and other expenses mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The total expenses increased was attributable in equity-settled share based expense and legal and professional fee.

Finance costs and income tax

Finance costs of this year increased to approximately HK$2,049,000 as compared to last year due to increase of the bank borrowings, and income tax credit of this year was HK$1,648,000, as compared to an income tax expense of HK$12,621,000 of last year, primarily due to the increase of deferred income tax assets.

Research and development costs

Research and development costs increased by approximately HK$5,538,000 or 25.5%, primarily for our expanding lighting business.

Trade and other receivables and prepayments

Trade and other receivables and prepayments increased by approximately HK$87,984,000 to approximately HK$352,305,000 for this year as compared to last year, attributable mainly to the increase in revenue.

Trade and other payables and accruals

Trade and other payables and accruals increased by approximately HK$21,548,000 to approximately HK$213,235,000 for this year as compared to last year, which was mainly due to the increase in purchases of raw materials and advance receipts from customers.

Quick Ratio

During the year, the quick ratio was slightly lower than last year, but the liquidity still maintain at a healthy position.

Current Ratio

During the year, the current ratio was slightly lower than last year.

Financial position and cash flows review

The Group's cash flow position was healthy and the bank borrowings were utilized for short term operating purpose.

Liquidity and Financial Resources

As at 31st December, 2017, the Group had cash and cash equivalents of approximately HK$74,284,000 (2016: HK$143,381,000) and pledged bank deposit of HK$Nil (2016: approximately HK$136,000) secured for bank loans. As at 31st December, 2017, the Group obtained banking facilities in a total of approximately HK$144,621,000 (2016: HK$153,150,000) of which HK$70,000,000 was supported by corporate guarantee and HK$74,621,000 was secured with floating charge on certain assets of the Group.

As at 31st December, 2017, the Group had bank borrowings of approximately HK$53,567,000 (2016: HK$1,363,000). The Group's gearing ratio, representing the total debt divided by total equity was 5.21% (2016: 0.14%).

During the year, net cash generated from operating activities amounted to approximately HK$76,241,000 (2016: HK$178,597,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure and Commitments

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$46,394,000 (2016: HK$25,218,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and Liabilities

As at 31st December, 2017, the Group had total assets of approximately HK$1,307,086,000 (2016: HK$1,182,432,000), total liabilities of approximately HK$279,528,000 (2016: HK$202,250,000) and equity attributable to owners of the Company of approximately HK$1,020,347,000 (2016: HK$980,182,000). The net assets of the Group increased by 4.8% to approximately HK$1,027,558,000 as at 31st December, 2017 (2016: HK$980,182,000).

SIGNIFICANT INVESTMENT AND ACQUISITION

On 16th January, 2017, the Group acquired a 65% interest in Fern-Howard Limited ("Fern-Howard") from an independent third party. The consideration of the transaction was HK$25,121,000 and settled in cash. Fern-Howard is principally engaged in the design, manufacture, marketing and distribution of energy efficient lighting products.

Except for the significant investments and acquisition as disclosed above, there was no significant investment and acquisition for the year ended 31st December 2017.

SIGNIFICANT DISPOSAL/IMPORTANT EVENT

There was no significant disposal/important corporate event for the year ended 31st December, 2017.

SUBSEQUENT EVENT

In January 2018, Assetnet Limited, an indirect wholly-owned subsidiary of the Group, as the borrower entered into a loan agreement for an aggregate loan amount of RMB225,000,000 (approximately HK$265,500,000) for a term of one year. The loan is interest-bearing at 3% per annum, secured by the right to purchase of the other non-current assets, and will be made available to Assetnet Limited in two tranches. Further details are set out in the announcement of the Company dated 8th January, 2018.

Up to the date of issuance of these consolidated financial statements, the first tranche amounting to RMB100,000,000 (approximately HK$118,000,000) has been drawn by the Group.

EXCHANGE RATE RISK

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain bank balances, pledged bank deposit and trade and other receivables and prepayments, trade and other payables and accruals and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

BUSINESS REVIEW

During the year under review, the OEM business performed well, driving a year-on-year increase in both sales and revenue. Leveraging on its professional manufacturing techniques and stable production management team, the Group has recorded growth for many years in a row. The Group has strived to strengthen its core business through proactive approaches such as establishing sales channels, developing products under both self-owned brands and licensed brands and seeking new sales opportunities globally. It actively introduced new sales programs to its self-owned brand outdoor products of "Gazillion ® Bubbles", licensed brand toy cars of "Tonka" and girls role-playing series of "Positively Perfect" and "Luna Petunia", as well as other new products such as "DC Superfriends", "Space Racers", "Herodrive" and "Sunny Bunnies". The Group recorded a decrease in sales of licensed brand plush products of "My Little Pony" and "Singamaling", girls role-playing products of "Baby Alive" and toy car products of "Tonka", and an increase in sales of outdoor game products of "Gazillion ® Bubbles", girls role-playing products of "Positively Perfect" and "Luna Petunia". The sustained recovery in the North America market has been a positive factor to the Group's sales growth. Overall, the OEM business recorded an increase in revenue, resulting in an increase in the Group's revenue as a whole.

In line with the Group's strategies to expand its portfolio beyond toy segment, the Group acquired a UK company which is engaged in the design, manufacture, marketing and distribution of lighting products and a Taiwan company which is engaged in the development of high-end LED products. These acquisitions allow us to provide a broader range of products, and will not only complement to the Group's lighting products, but also stimulate sales growth of the acquired brands.

The Group has made efforts to optimise its procurement strategy and further improve the production process, with an aim to reduce resource waste, lower relevant costs and control selling and distribution costs. The Group recorded a decrease in profit as compared with last year due to an increase in administrative expenses and recognition of share-based non-cash payment charge on grant of options.

Manufacturing operation

In view of the year-on-year growth in Vietnam's economy driven by the expansion in the industry sector, along with slower minimum wage growth, the Group remained optimistic about the operating environment and economic potential of Vietnam. The Group maintains its main production base in Vietnam. With a view to improving production efficiency for greater economic benefits and meeting the quality requirement of customers and latest local regulations, the Group has invested to expand its production scale and upgrade its production facilities in Vietnam. The expanded Vietnam plant has contributed positively to the overall sales of the Group. However, the climbing labour costs and employee expenses as well as fixed asset investment have exerted pressure on the Group's costs. The Group continued to invest in automation and facilities to enhance production efficiency.

The Group adopted more effective methods and techniques to maintain product quality and safety, and paid close attention to and monitored the changes in safety standards and regulations in different markets to ensure compliance with the new requirements. The Group will continue to produce high quality products with competitive prices, increase product value, and thus increase revenue.

Segment performance

The Group's core business remained the same as last financial year. Overall speaking, the OEM toy business has remained relatively stable and the self-owned brand manufacture business has brought new contributions, which together resulted in an satisfactory results. The self-owned brand outdoor products of "Gazillion ® Bubbles", toy car products of "Tonka" and the girls role-playing series continued to be sold in large retailers. Despite the intensive competition in the US market, and the unsustainable sales growth momentum in other markets as a result of the Brexit and weak currency, the overall sale performance, especially in the US market, remained satisfactory.

Leveraging its leading position in the global toy industry, strong customer base including top-tier toy companies worldwide, established production base in Vietnam as well as its sound financial situation, the Group is in a favourable position to capture the emerging opportunities and develop new products with its proven two-pronged strategy in business development, i.e., taking OEM business as a strong foundation and self-owned brand manufacture business as the growth driver, in order to achieve long-term sustainable growth. In addition, the Group places great emphasis on quality and design to improve product value while fulfilling international regulations on toy safety.

The United States ("US")

The US was still a major export market for the Group's toy products. Our revenue increased by approximately HK$155,465,000 or 14.2% to approximately HK$1,248,335,000 this year from approximately HK$1,092,870,000 last year.

Economic growth in the US has been energetic. Private consumption has remained strong thanks to low unemployment and higher wages. Following the steady recovery, however, there have been further signs of benign price pressures, with a pickup in the all-items index. Soft energy prices, tame inflation, reduced fiscal drag, strengthened household, corporate and bank balance sheets, and an improving housing market will remain in place for robust economic performance.

The US remained a major export market for the Group's toy products. Orders from mass-market retailers decreased in the year, which led to a decrease in sales of ODM products. However, the increase in sales of OEM business had offset the decrease in sales of ODM business, resulting in an increase in the total revenue generated from the US market. Overall, sales in the US market remained stable in the year due to stable performance in sales of toy car products of "Tonka", self-owned brand outdoor products of "Gazillion ® Bubbles" and girls role-playing products and orders from major retailers. The Group will strive to maintain its authorised licensing business for major brands, enrich other product lines and retain existing distributors and clients like Wal-Mart, Target, Toys "R" US, Costco and Amazon.

Canada

Our revenue in the Canadian market decreased by approximately HK$20,293,000 or 28.8% to HK$50,284,000 this year from approximately HK$70,577,000 last year.

While the Canadian economy is expected to strengthen in line with the stronger US economy and the stabilisation of commodity prices, the end of the era of ultra-low interest rates, plus uncertainties stemming from North America Free Trade Area ("NAFA") renegotiation and the US's post-QE policies and tax reform and soft crude oil prices will likely cloud the country's growth ahead.

Canada remains the second largest market of the Group following the US. The sales of girls role-playing products, toy car products and plush products decreased in the year, which offset the increase in the sales of self-owned brand outdoor products of "Gazillion ® Bubbles". As a whole, the revenue generated from the Canadian market recorded a decrease during the year. Despite subdued sales performance, the sales from mass-market retailers for girls role-playing products and toy car products of "Tonka" remained relatively stable. The Group will make efforts to maintain its existing distributors and clients, such as Wal-Mart and Toys "R" US.

Europe

Our revenue in Europe increased by approximately HK$61,567,000 or 215.4% to approximately HK$90,154,000 this year from approximately HK$28,587,000 last year.

So far, the EU economy has demonstrated resilience as it maintains the course of growth and job creation, thanks to a number of favourable factors such as acceleration in exports, a weaker euro, lower deflationary pressure and a continued support of accommodative monetary policy and fiscal stance of the European Central Bank. Overall, the EU economy expanded by a faster pace, while eurozone's GDP growth also quickened. This steady expansion should remain driven by domestic demand, thanks to the falling unemployment rate to the lowest since 2009 in the year under review. Despite continued improvement in financing conditions, there are certain uncertainties related to Brexit, the post-election developments in some major Member States, as well as the uncertainty over future US external policies, plus the heightened geopolitical tensions and the lingering immigration problem.

Russia's gross domestic product contracted for the second consecutive year. Following the commencement of the formal exit process which has led to a prolonged period of uncertainty and aggravated by a choppy sterling, the UK economy is forecast to see slower growth in the years ahead. On the other hand, steady improvement in the labour market and rebound in asset prices have greatly encouraged domestic consumption in Netherlands. Spurred by the firming domestic demand and the stronger global economy, the Italian economy has returned to growth since recent years. The Group focused on increasing its penetration into retailers for toy car products of "Tonka" and self-owned brand outdoor products of "Gazillion ® Bubbles", which resulted in increased orders. However, the decrease in the orders from several major clients in Russia, Denmark, Ukraine, Turkey, the UK, Switzerland and Romania had offset the increase in orders from several major clients in Poland, Netherlands, Italy, Finland and Estonia. Nevertheless, the increase in sales of self-owned brand outdoor products of "Gazillion ® Bubbles" and toy car products of "Tonka" had offset the decline in sales of plush products in the UK and EU countries and the sales of the newly-acquired UK lighting company in Europe also contributed to our sales in the European markets. Overall, the Group recorded an increase in its revenue in the European markets. The Group will continue its efforts to maintain existing distributors and clients such as Argos, Tesco, Smyths and Costco.

Mexico

Our revenue in Mexico decreased by approximately HK$4,391,000 or 46.8% to approximately HK$4,996,000 this year from approximately HK$9,387,000 last year.

With its close links to the US, the Mexican economy is expected to see a slightly slower growth in view of a more protectionist trade policy stance adopted by the US administration, exemplified by the NAFTA renegotiation and tax reform. Overall, our total revenue in the Mexican market recorded a decrease due to the decrease of our ODM product orders.

Australia and New Zealand

Our revenue in the Australia and New Zealand markets increased by approximately HK$1,055,000 or 4.3% to approximately HK$25,836,000 this year from approximately HK$24,781,000 last year.

During the year under review, Australia experienced a slowdown in economy growth. However, the Australian economy is expected to grow, backed by a boost of public investment in infrastructure, tourism-related activities, and retail trade and accommodation as the main drivers for the services sector.

Our revenue in the Australian market increased due to the growth in sales of girls role-playing products, self-owned brand outdoor products of "Gazillion ® Bubbles" and contribution from girls role-playing series of "Positively Perfect". The increase in the total revenue in the Australian market had offset the decrease in the revenue in New Zealand and the decrease in sales of lighting products. Overall, our revenue in Australia and New Zealand recorded an increase. The Group will continue its efforts to maintain its existing distributors and clients such as Target and Big W.

South America

Our revenue in South America markets decreased by approximately HK$1,675,000 or 17.8% to approximately HK$7,712,000 this year from HK$9,387,000 last year.

Global commodity prices remained strong. Yet not every South American country has responded in the same way to the global economy. Each has chosen a development path dependent upon their natural resource endowments, but a majority has turned to diversification of industry and exports for growth. The Group recorded a decrease in our sales in Peru, Paraguay, Panama, Nicaragua, Mexico, Chile, Bolivia and Argentina, which offset the increase in our sales in Honduras, Guatemala, Colombia, El Salvador, Ecuador and Costa Rica. The decrease was mainly attributable to toy car products of "Tonka" and plush products, which remained the largest contributors of the regional sales. The Group recorded a decrease in orders for toy car products of "Tonka" and plush products in the ODM business as a whole. Overall, our revenue in South America recorded a decrease.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2017, the Group had a total of approximately 14,000 (2016: 15,000) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, the US, Canada, Taiwan and Europe. The Group provides its employees with competitive remuneration packages commensurate to the level of pay established by the market trend in comparable businesses. A share option scheme was adopted by the Group for selected participants (including full-time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

ENVIRONMENTAL PROTECTION

The Group believes that maintaining a healthy and harmonious relationship with its stakeholders and fulfilling its social responsibilities to the community is essential for building and preserving the value of the Group. Adhering to the principle of Reducing, Recycling and Reusing, the Group encourages green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances, and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board and internal audit function team delegated by the Board monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. In accordance with the requirements of the laws, regulations and related policies in Hong Kong, the PRC, Vietnam and other relevant jurisdictions, the Company provides and maintains statutory benefits for its staff, including but not limited to mandatory provident fund, basic medical insurance, labour insurance, etc. All employees are entitled to statutory holidays. The Group has registered its products, domain name and trademarks in Hong Kong, the PRC and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has recognised that employees, customers and business partners are crucial to its sustainable growth. The Group is hence committed to building up close and caring relationship with our employees, provide exceptional service to our customers and enhance partnership with our business partners.

PROSPECT

Sales growth is expected to be continued on the back of the expanding OEM business. With a view to capturing the growing opportunities, the Group will continue to bring out innovative products, increase market share and expand geographically to generate better value. The Group strives to launch more ODM toy products and new platform products to ensure growth. It has launched several toy products under licensed brands, including a preschool line of "Tonka" toy cars and enriched its girls role-playing series of "Luna Petunia" and "Positively Perfect", and actively promoted its new products to new retailers. Meanwhile, the Group has successfully renewed and entered into agreements with renowned toy car license holders to launch new products with innovative technology of "Motion Drive" and develop toy products like "DC Superfriends", "Space Racers", "Herodrive" and "Sunny Bunnie" for leading license holders. The Group has established new distribution centres in Canada, the UK, France, Spain and Australia to promote its existing self-owned brand outdoor products of "Gazillion® Bubbles" and toy car products of "Tonka" on the international market, to fully leverage its strategic advantage of vertical integration of global marketing, design and manufacture capabilities.

In order to enhance production efficiency and simplify departmental collaboration, the Group will also invest in production automation facilities so as to improve its overall competitiveness. In addition, the Group will review its existing investments in the R&D division and formulate collaboration plan to fully utilise the available plant and facilities. Currently, the top priority of the Group is to expand production capacity in a timely manner to meet the strong market demand.

The Group has been actively identifying and exploring different investments and good merger and acquisition opportunities in order to acquire new business or asset that will bring additional value, synergy effect and new income streams to the Group, with a view to broadening our asset and income bases. In view of the vast potential in the lighting sector, the Group will continue to explore different investment opportunities in the lighting industry. In January 2018, an indirect wholly-owned subsidiary of the Company entered into a loan agreement with the lenders in respect of a loan amounting to RMB225,000,000. The loan provides an opportunity for the Group to leverage on the right to purchase in securing financing for the Group with ease and to conduct future business development.

Looking ahead, the Group's ultimate goal is to continue maintaining profitability and achieving cost efficiency. As such, we will closely monitor the Company's development strategy so as to maximise the return for our shareholders.

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 66, was appointed Chairman of the Company in September 2000 and also the Chairman of the nomination committee of the Company. Mr. Cheng is responsible for the overall corporate policies and development strategies and monitoring the overall management of the Group. Mr. Cheng has in-depth knowledge and extensive experience in business operations in Greater China. Mr. Cheng has more than 37 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also a director of Smart Forest Limited (Mr. Cheng's wholly owned company) which owns share interest in the Company. He is the father of Mr. Cheng King Cheung, Executive Director of the Company.

Mr. Yu Sui Chuen

Aged 62, was appointed Executive Director of the Company in September 2000. Mr. Yu holds a Higher Diploma in Business Administration major in Accounting. Mr. Yu has over 37 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. Mr. Yu is currently responsible for finance and accounting management, corporate finance, legal and taxation management and internal control of the Group.

Mr. Cheng King Cheung

Aged 26, was appointed Executive Director of the Company in October 2013. Mr. Cheng holds a bachelor's degree in Government from Franklin and Marshall College in Pennsylvania, USA. Mr. Cheng joined Funrise Inc. and Funrise Toys Limited ("the companies"), indirect wholly-owned subsidiaries of the Company, since 2010. He has about eight years' experience in sales and marketing of toys. He is currently a Chief Executive of the companies. He is a son of Mr. Cheng Yung Pun, the Chairman of the Company.

Mr. Leung Hong Tai (former name known as Leung Mang Pong) (his resignation effective on 1st April, 2018)

Aged 61, was appointed Executive Director in November 2009. He holds a Bachelor of Science Degree in Electronics and a Master of Science Degree in Digital Communication from University of Kent, England. He is a full member of Hong Kong Computer Society. He has over 28 years' experience in electronic and computing related subjects such as electronic hardware design, electronic printed circuit board development and production, LED and semi-conductor assembling machinery, information system development and implementation, computer networking, information security, equipment dimensioning and communication. His experience ranges from design, development to production of the electronic or toy related products. He joined the Group in 2003 and is currently responsible for the electronic design, development and production of the electronic related products.

Mr. Tse Kam Wah

Aged 67, was appointed Executive Director of the Company in November 2009. Mr. Tse obtained a higher certificate in mechanical engineering from The Hong Kong Polytechnic University. He has over 30 years' experience in toy factory and production management. His experience ranges from managing all manufacturing activities of the corporations in the base outside Hong Kong, monitoring manufacturing process to product development. He joined the Group over 19 years and is currently responsible for the production management.

Mr. Tsang Chung Wa

Aged 54, was appointed as Executive Director of the Company in January 2011. He holds a Diploma in Management Studies awarded jointly by The Hong Kong Management Association and The Hong Kong Polytechnic University. He has over 29 years' experience in the operation, sales and production management of toy industry. His experience ranges from managing marketing activities of the corporations in the base outside Hong Kong to business development. He joined the Group over 17 years and is currently responsible for the marketing management and the related business management works.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam

Aged 68, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive director in September 2004. He also serves as the Chairman of the audit committee, the remuneration committee and a member of the nomination committee of the Company. Dr. Loke has over 42 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and Hong Kong Institute of Chartered Secretaries. Mr. Heng Victor Ja Wei, an Independent Non-Executive Director of the Company, is his nephew-in-law.

He serves as an independent non-executive Director of the following companies whose shares are listed on The Stock Exchange of Hong Kong Limited: V1 Group Limited (formerly known as Vodone Limited), China Beidahuang Industry Group Holdings Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited, Chiho Environmental Group Limited (formerly known as Chiho-Tiande Group Limited), Tianjin Development Holdings Limited, China Household Holdings Limited, Tianhe Chemicals Group Limited, Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited), Forebase International Holdings Limited, Hang Sang (Siu Po) International Holding Company Limited, Hong Kong Resources Holdings Company Limited and Zhenro Properties Group Limited.

Mr. Mak Shiu Chung, Godfrey

Aged 55, was appointed Independent Non-executive Director in May 2000 and is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Mak holds a Bachelor of Science degree in business studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. He is a Member of the Hong Kong Securities Institute; a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators. Mr. Mak has over 27 years of experiences in the field of corporate finance.

Mr. Wan Hing Pui

Aged 87, was appointed Independent Non-executive Director in September 2004 and is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Wan has over 59 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales and a Fellow of Hong Kong Institute of Certified Public Accountants. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising).

Mr. Heng Victor Ja Wei

Aged 40, was appointed as an Independent Non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company in December 2012. He is a partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College of Science, Technology and Medicine, the University of London. He is a member of and holds a Certified Public Accountant (Practising) certificate issued by The Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants. He is a nephew-in-law of Dr. Loke Yu alias Loke Hoi Lam, an Independent Non-Executive Director of the Company. Mr. Heng serves as an independent non-executive director of China Fire Safety Enterprise Group Limited, Best Food Holding Company Limited (formerly known as Lee & Man Handbags Holding Limited), Lee & Man Chemical Company Limited and SCUD Group Limited and as Company Secretary of China Life Insurance Company Limited, whose shares are listed on the main board of the Stock Exchange.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 50, was appointed as Chief Executive Officer of the Company in May 2008. Mr. Chen is responsible for new product development and manufacturing operations of the Group. He has above 29 years' extensive experience in product development and manufacturing toys.

Corporate Governance Report

The board of directors (the "Board") of Matrix Holdings Limited (the "Company") has adopted the Company's corporate governance code (the "CG Code") to reflect the requirements of Appendix 14 (the "HKEx Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Continuous efforts are made to review, apply and enhance the Group's procedures in light of changes in regulations and developments in best practices. Following sustained development of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards. The Board is pleased to report compliance with the CG Code under the HKEx Code during the year ended 31st December, 2017, except where otherwise stated in section "Report of the Directors".

A. DIRECTORS

1. The Board

The Board assumes responsibility for directing the Company and enhancing its value for shareholders in accordance with good corporate governance principles and has established relevant board committees to assist in discharging this responsibility.

The principal functions of the Board are to make decision on the strategic development of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management of the Company and its subsidiaries for its day-to-day management and operation of the Group's businesses, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision; to oversee and evaluate the conduct of the Group's businesses; to identify principal risks and ensure the implementation of appropriate measures and control systems; to review and approve important matters such as financial results and investments etc.; and to review the Company's policies and practices on corporate governance.

As at 31st December, 2017, at least one-third of the Company's board are Independent Non-executive Directors ("INED") of which the Board comprises six executive directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Yu Sui Chuen, Mr. Cheng King Cheung, Mr. Leung Hong Tai (his resignation effective on 1st April, 2018), Mr. Tsang Chung Wa and Mr. Tse Kam Wah and four INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, (collectively the "Directors"). The INEDs required under Rule 3.10(1) of the Listing Rules who represent one third of the Board and include three with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

In accordance with the Bye-laws, the CG Code of the Company, every Director should be subject to retirement by rotation at least once every three years. All Directors appointed as an additional Director or to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. Despite Non-executive Directors (including independent non-executive) are not appointed for a specific term as stipulated by the HKEx Code Also, it is a deviation from code provisions A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws. The Company considers that sufficient measures have been taken to meet the intent of the relevant provision in the HKEx Code and CG Code and are no less exacting than those provisions as well, they are subject to retirement by rotation and re-election at the annual general meetings of the Company. As such, the Company considers that such provisions are sufficients of the HKEx Code.

The Directors who are subject to retirement and re-election at the 2018 Annual General Meeting are set out on page 46 of this Annual Report. The independence of the INED has been assessed in accordance with the applicable Listing Rules as each of the INED has provided an annual written confirmation of independence pursuant to the Listing Rules 3.13.

The Company considers that the INEDs continue to be independent in compliance with those independence criteria under the said rule and are capable to effectively exercise independent judgement up to and as at the date of this report.

The Directors' biographical details are listed in the section of "Biographies of Directors and Senior Management"in this report. Save as Mr. Cheng King Cheung is a son of Mr. Cheng Yung Pun and Mr. Heng Victor Ja Wei is a nephew-in-law of Dr Loke Yu alias Loke Hoi Lam, there is no financial, business, family or other material/relevant relationship between the Directors. The INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

2. Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and the CEO of the Company are segregated and are not held by the same person and are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own CG Code. The primary responsibility of the Chairman is to ensure smooth and effective functioning of the Board. His responsibilities are, inter alia, the leadership and effective running of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner. The CEO is delegated with the authority and his principal responsibilities are, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives. Currently, Mr. Cheng Yung Pun is the Chairman and Mr. Chen Wei Qing is the CEO of the Company.

3. Board Meetings and Access of Information

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allow board meetings to be conducted by way of telephone or video conference. Members of the Board receive information before the meetings about developments in the Company's business.

During the year under review, the Board held fifteen board meetings (including some meetings held by video or telephone conference) in which Mr. Yu Sui Chuen, Mr. Tse Kam Wah, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Heng Victor Ja Wei had attended all the board meetings; Mr. Leung Hong Tai (resignation effective on 1st April, 2018) had attended fourteen board meetings; Mr. Cheng Yung Pun and Mr. Wan Hing Pui had attended twelve board meetings; Mr. Cheng King Cheung had attended five board meetings and Mr. Tsang Chung Wa had attended two board meetings.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors. Board papers are circulated prior to board meetings in a timely manner in which sufficient information was supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

All Directors have access to the advice and services of the company secretary and upon reasonable request, independent professional advice in appropriate circumstances at the Company's expense, if any.

4. Directors' Securities Transactions

The Company has adopted its code for securities transactions by directors of listed issuers as the code of conduct governing directors' securities transactions in compliance with Appendix 10 to the Listing Rules (the "Model Code").

All Directors of the Company during the year, following specific enquiry by the Company, have confirmed that they have complied with the required standard set out in the Company's own code and the amended Model Code throughout the year.

5. Directors' Continuous Training and Development Programme

Pursuant to the HKEx Code, all Directors should participate the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company has introduced the development programme for Directors. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of its conduct, and business activities and development. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

During the year ended 31st December, 2017, all Directors of the Company namely, Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Mr. Cheng King Cheung, Mr. Leung Hong Tai (resignation effective on 1st April, 2018), Mr. Tsang Chung Wa, Mr. Tse Kam Wah, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei received regular updates on the Group's business, operations and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. They also attended regulatory update sessions on relevant topics. All Directors are requested to provide the Company with their respective training record pursuant to the CG Code.

B. DIRECTORS' REMUNERATION

1. Remuneration Committee ("RC")

The principal role and functions of RC include, inter alia, reviewing the Board on the remuneration policy and structure for the remuneration of Directors and senior management, the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment, as well as to make recommendation to the Board as described under Code B.1.2(c)(ii) of the HKEx Code. The RC consults the Chairman and/or CEO about their proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No Directors and executives can determine his own remuneration. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company. Detailed terms of reference of the RC are accessible on the website of the Company and the Hong Kong Exchanges and Clearing Limited ("HKEx").

Membership and attendance:

The RC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2017, all members of the RC had attended the RC meeting.

Work done during the year

- reviewed its remuneration policy for Directors and senior management; and
- reviewed the remuneration packages of executive Directors and senior management for the year 2017.

2. Level and Make-up of Remuneration

The Group's remuneration policy for executive Directors and senior management is linked to performance, service seniority and experience, which are reviewed from time to time to align with market/industry practices.

Details of the remuneration of the Directors for the year ended 31st December, 2017 are provided in note 10 to the Consolidated Financial Statements in this annual report.

C. DIRECTORS' NOMINATION

1. Nomination Committee ("NC")

The NC shall report back to the Board in writing on their decisions or recommendations within a reasonable time after such decisions or recommendations are made, unless there is legal or regulatory restriction on the Committee to do so. Its role and functions shall be the review of the structure, size and composition (including the skills, knowledge, experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy; identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; assess the independence of INEDs; make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. Where vacancies on the Board exist or an additional Director is considered necessary, the chairman of the NC will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the NC will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics etc. of the candidates and approved if such appointment considered suitable. The NC also considers the existing human resources policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new Director. The overriding objective of the nomination policy is to ensure that the Company is able to nominate a right person to be director which is essential to the success of the Company. Detailed terms of reference of the NC are accessible on the website of the Company and the HKEx.

NC's principal role is to review the Board's size, structure and composition to ensure that the Board has and by reviewing the Board's size, structure and composition, the Board will also consider a balance of ages, talents expertise, skills, experience, independent, knowledge and gender appropriate according to the Company's Board Diversity Policy.

Membership and attendance:

The NC comprises Mr. Cheng Yung Pun as chairman, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2017, all members (except the chairman) of NC had attended the meeting.

Work done during the year

- reviewed the structure, size and composition of the Board, and is of the view that there is an appropriate and diverse mix of skills and experience;
- reviewed the independence of INEDs of the Company and confirmed that all INEDs are considered independent;
- reviewed the profile and performance of Directors who will stand for re-election at Annual General meeting and confirmed that all those Directors are suitable to stand for re-election; and
- reviewed and assessed the composition of the Board.

2. Implementation of Board Diversity policy

- The policy concerning diversity of the board includes a mechanism on how NC oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the NC will consider the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills, experience and background on the Board. In recommending candidates for appointment to the Board, the NC will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the NC will consider the balance of ages, talents, skills, experience, independence, knowledge and gender on the Board and the diversity representation of the Board.

- The NC will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. It will also review annually the progress on achieving those objectives. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

D. ACCOUNTABILITY AND AUDIT

1. Audit Committee ("AC")

The principal role and functions of the AC are, inter alia, to review the appointment of the external auditor on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditor in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorisation of non-audit services provided by the external auditor.

Detailed terms of reference of the AC are accessible on the website of the Company and the HKEx.

Three AC members are qualified accountants. None of the AC members are members of the former or existing auditor of the Company.

Membership and attendance:

The AC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2017, all members had attended all the meetings. The finance director and the group financial controller are normal attendees of the AC meetings. Where appropriate, representatives of the external auditors are invited to attend the AC meetings to present significant audit and accounting matters which they noted in the course of their audit.

Work done during the year

- carried out interim and final financial review;
- reviewed interim and annual reports before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements;
- reviewed the external auditor's engagement letter; to discuss issues during the audits of external auditor. The external auditor and the senior executives are invited to attend the meeting for annual financial statements;
- reviewed the nature and scope of external audit and approved the external audit fee;
- reviewed the interim financial report, interim results announcement, the annual accounts and the annual results announcement in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements;
- reviewed continuing auditor objectivity and to safeguard independence of the Company's auditors;
- met the external auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss;
- reviewed the Group's internal control system;
- served as a focal point for communication between other Directors and the external auditor in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time;
- considered major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action;
- devised a framework for the type and authorisation of non-audit services provided by the external auditor.

2. Financial Reporting

The financial statements of the Company for the year ended 31st December, 2017 have been reviewed by the AC and audited by the external auditor, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Board approves the financial statements after taking into account specific accounting matters. The Board is satisfied that appropriate accounting policies have been used in preparing the financial statements, consistently applied and complied with the relevant accounting standards. Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards and also ensure the publication of the financial statements of the Group in a timely manner.

The Listing Rules require listed companies to prepare annual financial statements which shall provide a true and fair view of the state of affairs of the companies and of the results of their operations and cash flows.

The Board is responsible for ensuring the maintenance of proper accounting records of the Group. It has also acknowledged its responsibility for preparing the financial statements in a timely manner.

A statement of the auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 55 to 60 of this annual report.

3. Internal Control

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

The Audit Committee has, at a regularly scheduled meeting throughout the year, received a report from Group Internal Audit on the results of their activities during the preceding period and reported to the Board, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls.

The Board and Audit Committee accordingly have conducted a review of its risk management and internal control systems on (a) whether the Company has an internal audit function; (b) how often the risk management and internal control systems are reviewed; and (c) a statement that a review of the effectiveness of the risk management and internal control systems has been conducted and whether the Company considers them effective and adequate. They also reviewed the effectiveness of the system of internal control of the Group including the relevant financial, operational and compliance controls and risk management procedures and has delegated to the management the implementation of such systems of internal controls.

Appropriate control procedures have been designed to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

Parties involved in internal control function:

Chief audit executive

The Group's chief audit executive with accounting experience and qualification, serve the Board in the Group to overseeing the Group's financial reporting procedure internal controls and compliance with the accounting-related requirements under the Listing Rules. Notwithstanding, the Board considers the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting function and their training programmes and budget.

Internal audit function team

The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to set up an inhouse internal audit function team to perform internal audit functions for the Group. As the Group uses internal resources to comply with internal audit function, an inhouse internal audit function team was set up in 2015. The Audit Committee has identified the main risks in the Group and that the internal audit function team designed an internal audit program and will emphasise on the review of the risks according to the Risk Management plan. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

The Internal Audit function team comprises three members. It reviews and monitors dealings of the Group to ensure that all dealings with these entities are conducted on an arm's-length basis.

The Internal Audit function team reviews significant aspects of risk management for the Group companies and makes recommendations to the Audit Committee and other committees (as the case may be) if necessary, including amongst other things, the appropriate mitigation. The Audit Committee of the Company has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the team leader of internal audit function team to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee. The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company.

The Group's internal audit function team provides independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the Group. The team leader of internal audit function team reports directly to the Chairman of the Audit Committee under adoption of a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. During 2017, the Group internal audit function team conducted selective reviews of the effectiveness of the Group's system of internal controls over revenue cycle and receivables, pricing structure, cash and treasury management, risk analysis, materiality and control risk assessment including product liability risk, strategic risk, material safety risk, compliance risk, product sales risk and environmental regulation risk. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

4. Auditors' Remuneration

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, Hong Kong, were approximately HK$1,855,000 and HK$400,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

Remuneration paid to other auditors for audit and non-audit services rendered to overseas subsidiaries was approximately HK$3,530,000.

E. CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the HKEx Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review and Company's compliance with the HKEx Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance matters:

- reviewed the corporate governance duties under the HKEx Code; and
- review the compliance with the HKEx Code.

F. INVESTOR RELATIONS

1. Communication with investors

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the potential investors through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments.

During the year under review, there are no changes to the Company's bye-laws.

2. Annual General Meeting ("AGM")

The AGM provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as chairman of the Committees and their members is pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of individual Directors particularly the INED – Dr. Loke Yu alias Loke Hoi Lam and Mr. Wan Hing Pui to be re-elected at the 2018 AGM, as they are being an INED for more than 9 years.

The circular to shareholders dispatched together with the annual report includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. In order to comply with the Listing Rules and CG Code as well, the forthcoming AGM will be held with voting by way of a poll and that all shareholders will be given a notice for 20 clear business day or 21 days (whichever is later). The results of the poll in general meetings from time to time will be published on website of the Company and HKEx.

The executive directors, Mr. Yu Sui Chuen and Mr. Leung Hong Tai (resignation effective on 1st April, 2018) and the independent non-executive directors, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey and Mr. Heng Victor Ja Wei had attended the 2017 AGM of the Company held on 4th May, 2017.

3. Rights and Procedures for Shareholders to Convene Shareholders' Meetings, make enquiries and putting forward proposals at the Shareholders' Meetings

i) the procedures for the way in which shareholders can convene an extraordinary general meeting:

Pursuant to the Company's bye-laws, a special general meeting shall be convened on the written requisitionist of any 2 or more members holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. Such requisition must state the objects of the special general meeting and must be signed by the requisitionists and deposited at the office. If the Directors do not within 21 days from the date of the deposit of such requisition proceed duly to convene a special general meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them may convene the special general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors to convene such a meeting shall be reimbursed to them by the Company.

ii) Make Enquiries:

In accordance with the Company's Shareholders' Communication Policy, the Shareholders direct their questions about their shareholdings to the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "Branch Share Registrar") or the Customer Service Hotline of the Branch Share Registrar at (852) 2980-1333 from 9:00 a.m. to 5:00 p.m. Monday to Friday (excluding Hong Kong public holidays) or by email at matrix1005-ecom@hk.tricorglobal.com.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Shareholders shall make a request to the Branch's Share Registrar for the designated email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

iii)Put forward proposals:

Pursuant to the Company's bye-laws, notice in writing by any 2 or more shareholders entitled to attend and vote at the meeting holding at the date of the deposit of the notice in aggregate not less than one-tenth of such of the paid up capital of the Company (not being the person to be proposed) for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company at least 7 days before the date of the general meeting appointed for such election. The period for lodgment of the notice required under this Bye-Law shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Environmental, Social and Governance Report

1. SCOPE AND REPORTING PERIOD

1.1 Report Compilation Basis

This Report is prepared with reference to Environmental, Social and Governance ("ESG") Reporting Guide as described in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

1.2 Scope of Reporting

The Group is engaged in the toy manufacturing business for international brand customers and lighting products manufacturing directly to consumers or through sub-distributors on wholesale basis. This Report covers the relevant policies and performance of the said manufacturing businesses of the Group.

1.3 Reporting Period

The information published in this ESG report covers the period from 1st January, 2017 to 31st December, 2017.

1.4 Stakeholder Engagement and Materiality

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including shareholders, employees and management have been invited to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

2. ENVIRONMENTAL PERFORMANCE

The Group's manufacturing business is closely related to environmental protection and the usage of natural resources. The Group has established a set of management mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group.

2.1 Emissions Policy and Compliance

The Group strives to have the efficiency in the usage of energy, water and materials and also complies with relevant local environmental regulations and local jurisdiction's general practices and aims at international standard, with an aim to reduce the use of natural resources and protect the environment. The actions taken are aligned with international standards. These include greenhouse gas emission inspections, reduction, classification and recycling of waste, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels.

Total floor area coverage of the various factories in Vietnam of the Group was 122,722.2 m^2 and the Group accounts for the emissions from its factory operations in Vietnam mainly. Type of emissions from the production plant operations in Vietnam in the reporting year was mainly unleaded diesel oil, electricity, water, paper, hazardous waste and non-hazardous waste.

2.1.1 Types of Emissions

Carbon footprint generated from the manufacturing plants is disclosed in this ESG report. Carbon footprint is defined as the total amount of direct and indirect emissions of greenhouse gas (GHG) expressed in terms of equivalent amount of carbon dioxide (CO_2-eq) emission.

2.1.2 Greenhouse Gas Emissions

The total net GHG emission emitted by the Group's operation was 22,013.34 tonnes of carbon dioxide equivalent (tCO_2-eq). The source of the GHG emission was mainly from the consumption of electricity.

During the reporting year, the following table highlights the carbon footprint.

Scope of Greenhouse Gas Emissions	**Emission Sources**	**Emission** (in tonnes of CO_2e)	**Total Emission** (in percentage)
Scope 1			
Direct Emission	Unleaded Diesel Oil consumed by generator, forklift, boiler	44.23	0.20%
Scope 2			
Indirect Emission	Purchased Electricity	21,940.04	99.68%
Scope 3			
Other Indirect Emission	Water Consumption	29.07	0.12%
	Total:	22,013.34	100%

The major contributor of the GHG emission was from Scope 2: indirect emission, over 99.68% of the total emission. A further GHG emission analysis is made below:

Unit	
Total Greenhouse Gas Emitted (a) tCO_2e	22,013.34
Total Floor Area Coverage (b) m^2	122,722.2
Total production weight (KG)	12,064,881
Annual Emission Intensity (c) = (a)/(b) tCO_2e/m^2	0.179
Annual Greenhouse Gas emission Intensity (c) = (a)/(b) tCO_2e/KG	0.0018
Total Removal by installing of LED equipment (e) tCO_2e	12.010

2.1.3 Emission Prevention

In 2017, there was 22,013.34 tonnes of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted in total from the Group's operation in the reporting period. The annual emission intensity was 0.179 tCO_2e/m^2. Main factors of greenhouse gas emissions is energy; thus the Group was of the opinion that using and savings energy efficiently is a method to decrease GHG emissions amount by i) establishing energy management system in factory; ii) continuously replacing all normal light bulbs to be light-emitting diode ("LED") saving energy lighting; iii) installing roof of new facility made with transparent material to provide optimum natural illumination to avoid energy wastage; iv) window panes which are made in a way to provide the working environment with natural ventilation for better indoor air quality, as well as natural illumination to save energy.

2.1.4 Non-hazardous waste, paper and hazardous waste

Non-Hazardous waste

Non-hazardous waste from the Group's operation includes living wastes, plastic, packaging material, carton paper, cloth, for factories' uses and sales and marketing purposes.

Hazardous waste

Hazardous waste was in a total of 0.0295 tonnes.

2.1.5 Use of paper and packaging material

A total of 0.61 tonnes has been used for daily office operations and advertising materials such as leaflet, catalogue, sales kit, part of them have been collected by licensed recycling company. Packaging materials such as plastic bottles and carton containers used for production were disposed to 86.25 tonnes.

2.1.6 Waste reduction

The Group continues to practice paper saving and waste reduction initiatives, such as default double-sided printing, reminder for staff to have environmentally friendly photocopying habit, and separated collection of waste paper, plastic, cloth etc for effective recycling.

2.2 Use of Resources

2.2.1 Energy

Electricity

The electricity consumption by the Group was 34,825,468 kWh.

The Group continues its commitment in installing and switching to energy-saving lighting fixtures for example the LED equipment and sourcing energy efficient equipment to ensure functioning in optimal conditions and efficiency. In additional, the Group participated in the Environmental Score-Card ("ESC"). The ESC was launched by the factories in compliance with local environmental regulations and customer requirement with a focus on raising awareness on light nuisance and energy wastage.

2.2.2 Unleaded Diesel Oil

A total of 16,920 litres of unleaded diesel oil was used in the reporting period, contributing to 44.23 tonnes of carbon dioxide equivalent.

2.2.3 Water

Water consumption by the Group was 143,183 m^3, with water intensity of 1.17 m^3/m^2. The operation factories and offices with total floor area coverage of 121,316.4m^2 were included in this section as water usage of our most offices in other regions has been counted in the management fee, thus their water usage data cannot be obtained.

Nevertheless, the Group actively promotes water efficient practices such as i) implementing a project in relation to install water meter to monitor water consumption amounts; and ii) periodic training for workers about saving and using water effectively in the factory; and iii) continue to implement the environmental management program, which reduces water wastage caused by human error and unintentional switching mistake.

2.3 The Environment and Natural Resources

For any possible incident that cause pollution to the environment, the Group has clarified the management responsibilities of each managerial post and taken measures to protect the local ecological environment and avoid the occurrence of environmental pollution and ecological damage on the affected sites as stipulated in COC and ESC. There is an emergency plan will be formulated once there is any accident of pollution. There is currently no significant impacts of activities on the environment and natural resources.

3. SOCIAL PERFORMANCE

3.1 Employment Policy and Compliance

Through the Group's many years of experience in the industry, the Group understands that its service quality and competitiveness are highly dependent on its employees; therefore, it offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains employees. The Group had a total number of around 14,000 staff in Hong Kong, Macau, the PRC, Vietnam etc. of which around 13,000 factory employees as of 31st December, 2017, in which 100% was working as full time staff.

During the reporting year, the employment distribution and annual turnover rate are as below:–

3.1.1 *Total workforce by age group*

Employee's Age Distribution

Age	18-25	26-35	36-45	46-55	56 and above
Number of employees	8,800	3,600	600	100	10

3.1.2 *Annual Turnover Rate*

Annual Turnover Rate

Age	18-25	26-35	36-45	46-55	56 and above
Percentage of turnover	16%	20%	2.6%	0.5%	0.0%

Salaries are reviewed and adjusted based on performance appraisals and the market trend. Employees in the Group are entitled to year-end bonus, mandatory provident fund, medical insurance, various types of paid leave in addition to annual leave, sick leave and maternity leave, etc.

The Group regularly reviews factory employee handbook which outlines the Group's key messages, policies, procedures, promotion channel, compensation and benefits, occupational health and safety and complaint.

3.2 Health and Safety Policy and Compliance

Due to the industrial business nature, recruitment and staff retention has continued to be a challenge in the reporting period. The Group commits to ensure safe and healthy working environment for factory employees and to inspire and strengthens workforce regardless of their age, gender and ethnical backgrounds. With the aging population being a long-term demographic trend, the Group still has a sustainable workforce in this perspective.

The Group regularly reviews the factory employees' health and safety procedure to safeguard factory employees' well-being. Briefing, training, news and tips are provided to factory employee to raise their awareness and to refresh their knowledge and practices on using plant equipment.

3.2.1 *Occupational Health and Safety Data*

The occupational health and safety data is as below:–

Work related fatality	0
Work injury cases >3 days	49
Work injury cases <3 days	23

$$\frac{\text{Lost days due to injury}}{\text{Total labour working days}} \qquad \frac{762}{4{,}100{,}000}$$

3.2.2 *Safety Measures*

Safety precautions alert are continued to be communicated though briefings and guidelines to promote and enhance safety awareness and practices. The management will continue their effort in strengthening the Group's occupational health and safety performance.

3.3 Development and Training

Comprehensive professional training are provided to factory employees. All newly hired factory employees are required by policy to attend factory employee orientation and to familiarise with the Group's purpose, vision and aspiration, mission, core values, business goals and overview and how factory employee plays a vital role in the business.

Training's topics range from knowledge of product manufacturing, equipment procedure and refreshing courses, to management skills were included. A total of 2 hours x 12,337 = 24,674 hours training courses were conducted in the reporting period.

Total Number of Factory employee	13,000
Total Training Hours	21

The Group actively engages and motivates factory employees through various communication channels. The regular factory employee updated on staff promotion, and corporate news and activities. The Group also organised annual dinner and festival-related celebration and to provide enhanced communication channels between senior management and general staff. The Group believes having better transparent governance and investing efforts, factory employees, is the key to success of a sustainable business.

3.4 Labour Standard

3.4.1 *Child and forced labour*

No child nor forced labour in the Group's operations in the reporting period. It is in compliance with the employment law, Vietnam in terms of employment management.

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

3.5 Supply Chain Management

A strict tendering process is also in place to provide a fair and transparent platform for securing the best supplier for procurement of all equipment, products and services. The request for tender is included in the annual budgeting process and prepared by responsible departments which abide by the Group's quality assurance policy management program. Additional information such as testing report is used to evaluate the suppliers in order to have the best selected providers. The Group also monitors the overall performance of selected suppliers by conducting vendor audits with documented reports to substantiate the selection and on-going cooperation.

3.5.1 Number of Suppliers by Geographical Region

The Group has a total of 724 service and product suppliers such as Hong Kong, the PRC, and Vietnam.

3.5.2 Suppliers' Engagement

The Group maintains good relationship with its suppliers to ensure service stability and product quality. Suppliers are assessed and selected based on rational and clear criteria including production process, quality management system, regulatory requirement compliancy, operating capacity, sample availability for testing, packaging, and procedure, price, delivery assurance to ensure the best value for money services or products are procured.

3.6 Product Responsibility

To provide top quality products to customers, the Group carefully sourced its products and equipment with standardised procurement procedure and policies. The Group's comprehensive procurement management systems help screening out undesirable products in the aspects of raw materials and ingredients selection, and quality management system in factories, etc.

3.6.1 Products and Service Related Complaints

The Group has always been keen to maintain its good brand quality. During the reporting period, there was no significant complaint in product quality and delivery.

3.6.2 Protecting Intellectual Property Rights

The Group owned and registered numerous patents, trademarks and domain names as they are important to its brand and corporate image. The Group has complied with the intellectual property (the "IP") rights regulations. As at the date of this ESG report, there was not any material infringement of the IP rights and the Group is confident that all reasonable measures have been taken to prevent any infringement of its own IP rights and the IP rights of third parties.

3.6.3 Quality Assurance Process

The Group is committed to provide innovative and high-quality products to customers and to ensure quality compliance. New equipment are procured to enhance their competitiveness. Considerable efforts are made on ensuring good quality products are provided.

3.6.4 Consumer Data Protection and Privacy Policies

The Group complies with the Personal Data Privacy Ordinance, all personal data collected from employees, customers and suppliers are kept confidential, the computers and servers are protected from access passwords. As stipulated in the Group's Code of Conduct on ethical policy, employees are instructed of their responsibility to ensure data is collected, used, maintained, managed, stored and handled properly and secured appropriately.

3.7 Anti-Corruption

The Group commits to manage all business without undue influence and has regarded honesty, integrity, and fairness as its core values. All directors and factory employees are required to strictly follow the Code of Conduct and Group's policy to prevent potential bribery, extortion and fraud.

3.7.1 Preventive Measures

The Group encourages whistleblowing whereas an employee or a third party could report any concern about suspected misconduct, malpractice or irregularity, and conflict of interest in strict confidence.

During the reporting period, communication was performed to ensure employees understand the Group's Code of Conduct and there were no related legal cases concluded against the Group.

3.8 Community Investment

This year marked our continuous effort on trade union movement in the society. The Group has been working closely with various stakeholders and community.

4. CONSIDERING THE FUTURE DIRECTION FROM THE GROUP

The Group will continue actively sourcing energy-saving appliances, equipment and materials with careful selection and review of suppliers and their origins. Opportunities to provide more training and development in terms of raising staff's awareness on environmental and social impacts from the business will also be considered. The review of resource use will be adapted to make the businesses more sustainable as well as having greater capability to attractive future talents.

5. REPORTING FRAMEWORK

Key Performance Index (the "KPI") Reference Table as below:–

KPI of the ESG Guide		Corresponding headings in this ESG report
A	Environmental Performance	2.
A1	Emissions Policy and Compliance	2.1.
A1.1	Types of Emissions	2.1.1.
A1.2	Greenhouse Gas Emissions	2.1.2.
A1.3	Hazardous Waste	2.1.4.
A1.4	Non-Hazardous Waste	2.1.4.
A1.5	Emission Mitigation	2.1.3.
A1.6	Hazardous and Non-hazardous Wastes Reduction	2.1.6.
A2	Use of Resources	2.2.
A2.1	Energy Consumption	2.2.1.
A2.2	Water Consumption	2.2.3.
A2.3	Energy Use Efficiency	2.2.1.
A2.4	Water Use Efficiency	2.2.3.
A2.5	Total Packaging Material Used for Finished Products	2.1.5.
A3	The Environment and Natural Resources	2.3.
A3.1	Impacts of Activities on the Environment and Natural Resources	2.3.

5. REPORTING FRAMEWORK (Continued)

Key Performance Index (the "KPI") Reference Table as below:– (Continued)

KPI of the ESG Guide		Corresponding headings in this ESG report
B	Social Performance	3.
B1	Employment Policy and Compliance	3.1.
B1.1	Total Workforce	3.1.1.
B1.2	Employee Turnover Rate	3.1.2.
B2	Health and Safety Policies and Compliance	3.2.
B2.1	Number and Rate of Work-related Fatalities	3.2.1.
B2.2	Lost Days Due to Work Injury	3.2.1.
B2.3	Occupational Health and Safety Measures	3.2.2.
B3	Development and Training Policies	3.3.
B3.1	Percentage of Employees Trained	3.3.
B3.2	Average Training Hours	3.3.
B4	Labour Standards	3.4.
B4.1	Avoid Child and Forced Labour	3.4.1.
B4.2	Steps Taken to Eliminate Child and Forced Labour	3.4.1.
B5	Supply Chain Management	3.5.
B5.1	Number of Suppliers by Geographical Region	3.5.1.
B5.2	Suppliers Engagement	3.5.2.
B6	Product Responsibility	3.6.
B6.1	Product Recall or Return	3.6.
B6.2	Products and Service Related Complaints	3.6.1.
B6.3	Protecting Intellectual Property Rights	3.6.2.
B6.4	Quality Assurance Process	3.6.3.
B6.5	Consumer Data Protection and Privacy Policies	3.6.4.
B7	Anticorruption Policies and Compliance	3.7.
B7.1	Number of Concluded Legal Cases Regarding Corrupt Practices	3.7.1.
B7.2	Preventive Measures and Whistle-blowing Procedures	3.7.1.
B8	Community Investment	3.8.
B8.1	Focus Areas of Contribution	3.8.
B8.2	Resources Contributed	3.8.

Report of the Directors

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

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are manufacturing and trading of toys and lighting products. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 81.7% of the Group's turnover, with the largest customer accounted for approximately 55.8%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 33.6% of total purchases of the Group, with the largest supplier accounted for approximately 12.7%.

At no time during the year did any Director, any associate of a Director, or any shareholder, which to the knowledge of the Directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61.

During the year, the Company has paid 2016 final dividend of HK7 cents per share and the Directors have declared 2017 interim dividend of HK4.5 cents per share. Both 2016 final dividend and 2017 interim dividend were paid by cash. The total cash dividend paid during the year was approximately HK$86,964,000.

The Directors now recommend the payment of a final dividend of HK5 cents per share amounting to approximately HK$37,810,000, to the shareholders on the register of members on 3rd May, 2018 payable in cash. The remaining retained profits in the Company amounted to approximately HK$313,019,000.

SHARE ISSUED IN THE YEAR

Details of the shares issued in the year ended 31st December, 2017 are set out in note 21 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

DISTRIBUTION RESERVES

Distribution reserves of the Company at 31st December, 2017, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$350,829,000 (2016: HK$106,863,000).

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of a group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DEBENTURES/EQUITY LINKED AGREEMENTS

No debentures or equity linked agreements were issued during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 134.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors:

Cheng Yung Pun *(Chairman)*
Cheng King Cheung
Tsang Chung Wa
Tse Kam Wah
Yu Sui Chuen
Leung Hong Tai *(resignation effective on 1st April, 2018)*

Independent non-executive Directors:

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

OTHER INFORMATION OF DIRECTORS

In the last three years, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive Director ("INED") of the Company, was appointed as INED of Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited and a company listed on the Stock Exchange) with effect from 28th July, 2015, INED of Forebase International Holdings Limited (a company listed on the Stock Exchange) with effect from 18th April, 2016, INED of Hang Sang (Siu Po) International Holding Company Limited (a company listed on the Stock Exchange) with effect from 17th May, 2016, INED of Hong Kong Resources Holdings Company Limited (a company listed on the Stock Exchange) with effect from 31st May 2017 and INED of Zhenro Properties Group Limited with effect from 16th January, 2018. Dr. Loke was also appointed as INED of Mega Medical Technology Limited (formerly known as Wing Tai Investment Holdings Limited and Wing Lee Holdings Limited and a company listed on the Stock Exchange) with effect from 20th June, 2014; however, he has resigned on 11th January, 2017. He also resigned as company secretary of Minth Group Limited, a company listed on the Stock Exchange with effect from 8th February 2018.

In addition, in the last three years, Mr. Heng Victor Ja Wei, INED of the Company, was appointed as INED of SCUD Group Limited (a company listed on the Stock Exchange) with effect from 1st September, 2016 and as INED of Daohe Global Group Limited (a company listed on the Stock Exchange) with effect from 11th August, 2016; however, he has resigned on 11th January, 2017. Mr. Mak Shiu Chung, Godfrey, INED of the Company, resigned as the Co-Chairman and executive Director of Grand Ocean Advanced Resources Company Limited (formerly known as DeTeam Company Limited and a company listed on the Stock Exchange) with effect from 5th February, 2015.

The director's emolument (including any provident fund contribution, bonus payment, whether fixed or discretionary in nature or any sum receivables as director's fee or remuneration) of the executive directors, Mr. Yu Sui Chuen was changed to HK$1,690,000, Mr. Leung Hong Tai (his resignation effective on 1st April, 2018) was changed to HK$1,489,000, Mr. Tse Kam Wah was changed to HK$1,492,000 and Mr. Arnold Edward Rubin (resigned on 1st March, 2017), was changed to HK$8,204,000 respectively in 2017. The annual director's fee of the INEDs namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, had been adjusted to HK$100,000, with effect from 1st January, 2017.

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

OTHER INFORMATION OF DIRECTORS (Continued)

Directors' and chief executive's emoluments

The emoluments paid or payable to each of the twelve (2016: twelve) Directors and one (2016: one) chief executive are as follows:

Name	Fees HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors				
Cheng Yung Pun	–	1,118	–	1,118
Yu Sui Chuen	–	1,649	41	1,690
Cheng Wing See, Nathalie *(resigned on 10th March, 2017)*	–	107	3	110
Arnold Edward Rubin *(resigned on 1st March, 2017)*	–	8,204	–	8,204
Tse Kam Wah	–	1,474	18	1,492
Leung Hong Tai *(resignation effective on 1st April, 2018)*	–	1,471	18	1,489
Tsang Chung Wa	–	1,180	18	1,198
Cheng King Cheung	–	1,833	92	1,925
Independent Non-executive Directors				
Loke Yu alias Loke Hoi Lam	100	–	–	100
Mak Shiu Chung, Godfrey	100	–	–	100
Wan Hing Pui	100	–	–	100
Heng Ja Wei, Victor	100	–	–	100
Chief Executive				
Chen Wei Qing ("Mr. Chen")	–	1,344	18	1,362
	400	18,380	208	18,988

DIRECTORS' SERVICE CONTRACTS

In accordance with clause 99 of the Bye-laws of the Company, Mr. Yu Sui Chuen, Mr. Leung Hong Tai, Dr. Loke Yu alias Loke Hoi Lam and Mr. Wan Hing Pui, who have been longest in office since their last elections and will retire by rotation at the AGM. However, Mr. Leung Hong Tai had tendered his letter of resignation effective on 1st April, 2018 (before the AGM held), he will not be subject to re-election at the AGM.

The other three retiring Directors (that is, Mr. Yu Sui Chuen, Dr. Loke Yu alias Loke Hoi Lam and Mr. Wan Hing Pui) have indicated that they will offer themselves to be eligible for re-election at the AGM. Separate resolution will be proposed at 2018 annual general meeting for the re-election of Dr. Loke Yu alias Loke Hoi Lam and Mr. Wan Hing Pui being INED for more than 9 years.

Mr. Leung Hong Tai confirmed that he has no claims whatsoever against the Company for fees, compensation for loss of office, remuneration, severance payments, pension, expenses or otherwise and there is no disagreement with the Board and there are not any matters that need to be brought to the attention of the Shareholders or the Stock Exchange.

In accordance with clause 91 of the Bye-laws of the Company, a newly appointed director is required to be retired and re-election at the AGM. Accordingly, Ms. Yip Hiu Har who will be appointed as executive director of the Company with effect from 1st April, 2018, will be eligible for re-election at the AGM.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors, the annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS'/CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Details of related party transactions during the year are set out in note 34 to the consolidated financial statements.

Save as disclosed above, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company and directors' connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors have any interests in competing business to the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31st December, 2017, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and 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 which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of Director/ chief executive officer		Personal Interests	Family Interests *(Note 2)*	Corporate Interests *(Note 1)*	Other Interests	Total	% of the issued share capital of the Company
Cheng Yung Pun *(Director)*	Long position	–	–	544,611,569	–	544,611,569	72.02%
Cheng King Cheung *(Director)*	Long position	1,968,000	–	–	–	1,968,000	0.26%
Leung Hong Tai *(Director)* *(resignation effective on 1st April, 2018)*	Long position	4,594,000	1,450,000	–	–	6,044,000	0.80%
Tsang Chung Wa *(Director)*	Long position	4,108,251	–	–	–	4,108,251	0.54%
Tse Kam Wah *(Director)*	Long position	4,200,000	–	–	–	4,200,000	0.56%
Yu Sui Chuen *(Director)*	Long position	340,000	–	–	–	340,000	0.04%
Chen Wei Qing *(Chief Executive Officer)*	Long position	3,980,000	–	–	–	3,980,000	0.53%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

Long Positions in Ordinary Shares of the Company (Continued)

Ordinary Shares of HK$0.10 each of the Company (Continued)

Notes:

(1) The shares are held by Smart Forest Limited ("Smart Forest"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart forest is wholly owned by Mr. Cheng Yung Pun.

(2) Shares are held by Ip Yi Mei, spouse of Mr. Leung Hong Tai, Director of the Company.

Share Option

	Option type	Number of underlying shares attached to the share options: Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of year	Exercise price HK$	Exercise period
Employees	2017a	–	24,000,000 *(Note 1)*	–	–	24,000,000	3.138	6th August 2017 to 6th August 2020
	2017b	–	2,600,000 *(Note 2)*	–	–	2,600,000	3.050	13th August 2017 to 13th August 2020
Total Employees		–	26,600,000	–	–	26,600,000		

Notes:

(1) The 24,000,000 underlying shares (representing approximately 3.17% of issued share capital of the Company) in respect of share options were granted on 8th May, 2017 pursuant to the Company's share option scheme.

(2) The 2,600,000 underlying shares (representing approximately 0.34% of issued share capital of the Company) in respect of share options were granted on 15th May, 2017 pursuant to the Company's share option scheme.

The closing prices of the Company's shares on 8th May, 2017 and 15th May, 2017, the dates of grant of the options type of 2017a and 2017b were HK$3.05 and HK$2.95 respectively.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

Long Positions in Ordinary Shares of the Company (Continued)

Share Option (Continued)

Details of specific category of share options are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price
2017a	8th May, 2017	90 days	6th August 2017 to 6th August 2020	HK$3.138
2017b	15th May, 2017	90 days	13th August 2017 to 13th August 2020	HK$3.050

During the year ended 31st December, 2017, the options carry right to subscribe for a total of 26,600,000 shares had been granted on 8th May, 2017 and 15th May, 2017, respectively.

The fair value was calculated using the Binomial Option pricing model. The inputs into the model are as follows:

Option Type	2017a	2017b
Weighted average share price	HK$3.050	HK$2.950
Exercise price	HK$3.138	HK$3.050
Expected volatility	46.97%	46.57%
Expected life	3.2 years	3.2 years
Risk-free rate	0.94%	0.89%
Expected dividend yield	3.96%	3.97%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.

Because the Binomial Option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The fair value of services received under an equity-settled share-based payment arrangement is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). Details of the accounting policy for equity-settled shared-based payment transactions are set out in note 3 of the Group's financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

Long Positions in Ordinary Shares of the Company (Continued)

Share Option (Continued)

Save as disclosed above, none of the Directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any specified undertaking of the Company or any other associate corporation as at 31st December, 2017.

ARRANGEMENTS TO PURCHASE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors and Chief Executives' Interests and Short Positions in Shares, Underlying shares and Debentures of the Company or any specified undertaking of the Company or any other associated corporation", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Smart Forest *(Note 1)*	Beneficial owner	544,611,569	72.02%

Note:

(1) Smart Forest, a company incorporated in the British Virgin Island which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2017.

SHARE OPTION SCHEME

The key terms of the share option scheme of the Company adopted on 4th May, 2012 (the "2012 Share Option Scheme") are summarised herein below:

(i) The purpose of the 2012 Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries;

(ii) The eligible participants of the 2012 Share Option Scheme include any full-time employees, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;

(iii) As at 31st December, 2017, the total number of shares available for issue of option under the 2012 Share Option Scheme was 45,264,731 shares (after the 2012 Share Option Scheme adopted on 2012 annual general meeting held on 4th May, 2012 and grant of share options), which representing 6.00% of the issued share capital of the Company;

(iv) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the Shares in issue ("2012 Scheme Limit") as at the date approving the adoption of 2012 Share Option Scheme in the 2012 AGM. Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit, unless approval from the Company's shareholders has been obtained for refreshing the 2012 Scheme Limit provided that such limit as refreshed shall not exceed 10% of the Shares in issue as at the date of such shareholders' approval. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options may be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded;

(v) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company (including both exercised and outstanding options) to each Eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such eligible participant and his associates abstaining from voting. Any grant of options to a substantial Shareholder (as defined in the Listing Rules) of the Company or any the independent non-executive Director or their respective associates which result in the number of Shares issued and to be issued upon exercise of options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under this Scheme and the other schemes in the 12-month period up to and including the date of offer of such grant (a) representing in aggregate over 0.1% of the Shares in issue on the date of offer; and (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on each date of offer, in excess of HK$5 million, such further grant of options shall be subject to the approval of the Shareholders of the Company in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting;

SHARE OPTION SCHEME (Continued)

(vi) There is no general requirement that an option must be held for any minimum share period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the 2012 Share Option Scheme can be exercised. There is no specific performance targets stipulated under the terms of the 2012 Share Option Scheme;

(vii) An offer for the grant of options must be accepted within 28 days after the option is offered to the relevant Grantee. The amount payable to the Company on acceptance of the offer of the grant of an option is HK$1.00 which is non-refundable;

(viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: P = N x Ep, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "Ep" is the exercise price for a Share in respect of any particular option granted under the 2012 Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the 5 Business Days immediately preceding the date of offer; and (c) the nominal value of a Share, and as adjusted pursuant to the clauses of the 2012 Share Option Scheme; and

(ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

During the year under review, options which have been granted and carry rights to subscribe for 26,600,000 shares, representing 3.52% (31st December 2016: nil) of the shares in issue at that date, remain outstanding. As at 31st December, 2017 and as at the latest practicable date prior to the issue of the annual report, no options have been exercised, cancelled or lapsed (31st December, 2016: nil share).

The details of the share options were disclosed in the Section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any specified undertaking of the Company or any other associated corporation".

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

The Board has adopted a new corporate governance code (the "CG Code") and amended it from time to time, which is based on the principles set out in Appendix 14 (the "HKEx Code") to the Listing Rules on the Stock Exchange.

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the HKEx Code and CG Code except for the deviations from code provisions A.4.1 and E.1.2 which are explained as follows:

i) under the code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the HKEx Code and CG Code as well;

ii) under the code provision E.1.2, Mr. Cheng Yung Pun, the chairman of the Board and the Nomination Committee was unable to attend the 2017 AGM due to conflicting business schedules. The Chairman of the Audit and Remuneration Committees and their two members and two executive directors had attended the 2017 AGM and one of them had been nominated as chairman of the AGM. The Company considers that the presence is sufficient for (i) answering questions from and (ii) effective communication with the shareholders of the Company present at the 2017 AGM.

SUFFICIENCY OF PUBLIC FLOAT

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

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

With regard to the facilities of up to an aggregate extent of HK$70,000,000 granted to the three indirect wholly-owned subsidiaries of the Company by a bank in Hong Kong (the "Bank-HK"), the Company has received three facility letters in which the terms and conditions of two of the facilities letters included, inter alia, a condition to the effect that Mr. Cheng Yung Pun (a controlling shareholder of the Company) should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company. If a breach of the above condition that will constitute an event of default under the revised facilities, the Bank-HK will discuss for remedy actions including obtaining waiver for the breach or seeking for any viable solutions or alternatives. Nevertheless, the revised facilities will be uncommitted lines and the Bank-HK reserves the right to request repayment on demand.

AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 8th March, 2018

Deloitte. 德勤

To the Shareholders of Matrix Holdings Limited
美力時集團有限公司
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 133, which comprise the consolidated statement of financial position as at 31st December, 2017, 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, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
We identified impairment assessment of goodwill arising from acquisition of business in prior year as a key audit matter due to significant judgements and assumptions in determining the recoverable amount of the cash generating unit ("CGU") to which goodwill has been allocated. As disclosed in notes 4 and 16 to the consolidated financial statements, as at 31st December, 2017, the Group had goodwill of HK$96,822,000 relating to the acquisition of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group") in 2007. Funrise Group is engaged mainly in the trading of toys in the United States of America. Management has performed annual impairment assessment on goodwill allocated to the CGU by assessing the recoverable amount which were determined based on the value in use calculation. In estimating the value in use of the CGU, key assumptions used by management included discount rate and further revenue growth.	Our procedures in relation to the impairment assessment of goodwill included: • Evaluating the valuation methodology and assessed the reasonableness of key assumptions in relation to the management's impairment assessment; • Evaluating the historical accuracy of cash flow forecast by comparing them to the actual result of this CGU in the current year; • Assessing the key factors in determining the discount rate, including the Group's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in similar industry for reasonableness; and • Evaluating the reasonableness of and re-performing the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of other non-current assets	
We identified impairment assessment of other non-current assets arising from disposal of a then indirect wholly owned subsidiary in previous year as a key audit matter due to the involvement of significant judgements and assumptions in determining the recoverable amount. As disclosed in notes 4 and 17 to the consolidated financial statements, as at 31st December, 2017, the Group had other non-current assets of HK$186,000,000 which represented the fair value, at the date of the disposal of the indirect wholly owned subsidiary, of the right to receive the residential properties which formed part of the consideration of the disposal. The carrying amount of the other non-current assets is subject to the impairment assessment. The residential properties to be received are related to a redevelopment project that transforms certain industrial area into residential area. Significant management judgement was involved in assessing the recoverability of the other non-current assets based on the status of development of the redevelopment project and the latest expected market value of the residential properties upon completion.	Our procedures in relation to the impairment assessment of other non-current assets included: • Evaluating management's impairment assessment on the residential properties to be received by checking the progress of government approval on the change of land use rights from industrial purpose to residential purpose; • Checking the project status report provided by the third party property developer; and • Evaluating management's valuation assessment on the residential properties to be received by comparing the projected market price with the latest market price of comparable residential properties in the area.

Other Matter

The consolidated financial statements of the Company for the year ended 31st December, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 16th March, 2017.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Wang Hei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8th March, 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	*5*	**1,434,008**	1,247,218
Cost of sales		**(964,724)**	(797,933)
Gross profit		**469,284**	449,285
Other income	*6*	**2,269**	1,009
Other gains and losses	*7*	**3,574**	(5,993)
Distribution and selling costs		**(138,719)**	(136,811)
Administrative and other expenses		**(200,254)**	(150,508)
Research and development costs		**(27,223)**	(21,685)
Operating profit		**108,931**	135,297
Finance costs	*8*	**(2,049)**	(22)
Profit before income tax	*9*	**106,882**	135,275
Income tax credit (expense)	*11*	**1,648**	(12,621)
Profit for the year		**108,530**	122,654
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(6,974)**	4,959
Total comprehensive income for the year, net of tax		**101,556**	127,613
Profit (loss) for the year attributable to:			
Owners of the Company		**112,670**	122,654
Non-controlling interests		**(4,140)**	–
		108,530	122,654
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**105,696**	127,613
Non-controlling interests		**(4,140)**	–
		101,556	127,613
Earnings per share attributable to owners of the Company for the year (expressed in HK cents per share)			
Basic earnings per share	*13*	**15**	16
Diluted earnings per share	*13*	**15**	16

Consolidated Statement of Financial Position

At 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**177,984**	136,339
Leasehold land and land use rights	*15*	**12,354**	12,837
Intangible assets	*16*	**120,677**	96,822
Deferred tax assets	*23*	**13,891**	6,220
Deposits paid	*19*	**37,979**	11,520
Other non-current assets	*17*	**186,000**	186,000
		548,885	449,738
Current assets			
Inventories	*18*	**328,472**	324,838
Trade and other receivables and prepayments	*19*	**352,305**	264,321
Tax receivable		**3,140**	18
Pledged bank deposit	*20*	**–**	136
Cash and cash equivalents	*20*	**74,284**	143,381
		758,201	732,694
Total assets		**1,307,086**	1,182,432
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*21*	**75,620**	75,620
Reserves		**944,727**	904,562
Equity attributable to owners of the Company		**1,020,347**	980,182
Non-controlling interests		**7,211**	–
Total equity		**1,027,558**	980,182

	Notes	2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*23*	**938**	663
Obligations under finance leases	*24*	**1,469**	–
		2,407	663
Current liabilities			
Trade and other payables and accruals	*25*	**213,235**	191,687
Tax payables		**8,570**	8,537
Bank borrowings	*26*	**53,567**	1,363
Obligations under finance leases	*24*	**1,749**	–
		277,121	201,587
Total liabilities		**279,528**	202,250
Total equity and liabilities		**1,307,086**	1,182,432

The consolidated financial statements on pages 61 to 133 were approved and authorised for issue by the Board of Directors on 8th March, 2018 and are signed on its behalf by:

Cheng Yung Pun
DIRECTOR

Yu Sui Chuen
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2017

	Attributable to owners of the Company									
	Share capital HK$'000	**Share premium** HK$'000	**Shareholders' contribution** HK$'000 *(Note 22)*	**Share options reserve** HK$'000	**Other reserves** HK$'000 *(Note 22)*	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
Balance at 1st January, 2017	75,620	189,090	21,028	–	(150)	(45,034)	739,628	980,182	–	980,182
Comprehensive income (expense)										
Profit (loss) for the year	–	–	–	–	–	–	112,670	112,670	(4,140)	108,530
Other comprehensive expense										
Currency translation differences	–	–	–	–	–	(6,974)	–	(6,974)	–	(6,974)
Total other comprehensive expense, net of tax	–	–	–	–	–	(6,974)	–	(6,974)	–	(6,974)
Total comprehensive (expense) income	–	–	–	–	–	(6,974)	112,670	105,696	(4,140)	101,556
Total contributions by and distributions to owners of the Company, recognised directly in equity										
Recognition of equity-settled share based payments	–	–	–	21,433	–	–	–	21,433	–	21,433
Dividends paid *(Note 12)*	–	–	–	–	–	–	(86,964)	(86,964)	–	(86,964)
Non-controlling interests arising on acquisition of subsidiaries *(Note 27(a))*	–	–	–	–	–	–	–	–	11,351	11,351
	–	–	–	21,433	–	–	(86,964)	(65,531)	11,351	(54,180)
Balance at 31st December, 2017	75,620	189,090	21,028	21,433	(150)	(52,008)	765,334	1,020,347	7,211	1,027,558

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2017

	Attributable to owners of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Shareholders' contribution** HK$'000 *(Note 22)*	**Other reserves** HK$'000 *(Note 22)*	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
Balance at 1st January, 2016	75,620	189,090	21,028	(150)	(49,993)	749,310	984,905
Comprehensive income							
Profit for the year	–	–	–	–	–	122,654	122,654
Other comprehensive income							
Currency translation differences	–	–	–	–	4,959	–	4,959
Total other comprehensive income, net of tax	–	–	–	–	4,959	–	4,959
Total comprehensive income	–	–	–	–	4,959	122,654	127,613
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends paid *(Note 12)*	–	–	–	–	–	(132,336)	(132,336)
	–	–	–	–	–	(132,336)	(132,336)
Balance at 31st December, 2016	75,620	189,090	21,028	(150)	(45,034)	739,628	980,182

Consolidated Statement of Cash Flows

For the year ended 31st December, 2017

	Note	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**106,882**	135,275
Adjustments for:			
(Gain) loss on disposal of property, plant and equipment		**(994)**	6
Interest income		**(48)**	(26)
Interest expenses		**2,049**	22
Depreciation of property, plant and equipment		**37,906**	35,938
Amortisation of leasehold land and land use rights		**483**	481
Amortisation of intangible assets		**818**	–
Share-based payments		**21,433**	–
Provision for (reversal of) impairment of trade receivables		**3,341**	(422)
Operating cash flows before movements in working capital		**171,870**	171,274
Decrease (increase) in inventories		**4,076**	(18,919)
(Increase) decrease in deposits paid, trade and other receivables and prepayments		**(88,190)**	1,688
(Decrease) increase in trade and other payables and accruals		**(2,004)**	35,501
Cash generated from operations		**85,752**	189,544
Income taxes paid		**(11,913)**	(10,947)
Income tax refund		**2,402**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES		**76,241**	178,597
INVESTING ACTIVITIES			
Interest received		**48**	26
Acquisitions of subsidiaries	*27*	**(20,312)**	–
Purchases of and deposits paid for patents		**(14,630)**	–
Proceeds from disposals of property, plant and equipment		**1,690**	658
Purchases of and deposits paid for property, plant and equipment		**(68,133)**	(34,419)
NET CASH USED IN INVESTING ACTIVITIES		**(101,337)**	(33,735)

	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES		
Interest paid	**(2,049)**	(22)
Dividends paid	**(86,964)**	(132,336)
New bank borrowings raised	**227,141**	1,294
Repayments of bank borrowings	**(183,035)**	(69)
Repayments of obligations under finance leases	**(1,394)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(46,301)**	(131,133)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(71,397)**	13,729
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**143,381**	129,652
Effect of foreign exchange rate charges	**2,300**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**74,284**	143,381

1. GENERAL INFORMATION

Matrix Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and trading of toys and lighting products. The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in Note 36.

The Company is an exempted limited liability company incorporated in Bermuda. The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

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

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 7 "Disclosure initiative" (Continued)

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 30. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in the consolidated financial statements for the year ended 31st December, 2017, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[2]

[1] *Effective for annual periods beginning on or after 1st January, 2018*
[2] *Effective for annual periods beginning on or after 1st January, 2019*
[3] *Effective for annual periods beginning on or after a date to be determined*
[4] *Effective for annual periods beginning on or after 1st January, 2021*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31st December, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model was to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1st January, 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1st January, 2018.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Currently under HKAS 18, the Group recognises revenue from sales of goods when the goods are delivered and titles have been passed to the customer and the significant risks and rewards of ownership of the goods have been transferred to the customer. Under HKFRS 15, the Group has assessed whether the revenue will be recognised overtime or at a point in time for those manufactured products with no alternative use to the Group. The directors of the Company consider that there is no significant impact as at 1st January, 2018 since the production cycle of the products is short.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2017, the Group has non-cancellable operating lease commitments of HK$71,299,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 "Leases" (Continued)

In addition, the Group currently considers refundable rental deposits paid of HK$3,670,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The principal accounting policies are set out below.

Consolidation

Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

Business combination (Continued)

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interests recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the executive directors of the Company (the "Executive Directors") who make strategic decisions.

Foreign currency translation

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"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

All other foreign exchange gains or losses are presented in the profit or loss within 'other gains and losses'.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the 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 for each profit or loss are translated at average exchange rates (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 rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

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. Currency translation differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repair and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

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

Property, plant and equipment commence depreciation from the time the assets become available for their intended use. Depreciation is calculated using the straight-line method to allocate their cost to their residual values, where appropriate, over their estimated useful lives, as follows:

Buildings	25 – 50 years or over the lease term, if shorter
Leasehold improvements	10 years or over the lease term, if shorter
Plant and machinery	5 – 10 years
Moulds	3 – 10 years
Others	3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing net proceeds with carrying amount of the relevant assets and are included in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisition of business is included in intangible assets.

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 entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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 the 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.

Customer base

Definite-lived intangible assets including customer base are acquired in a business combination, are recognised at its fair value at the acquisition date, and are being amortised over the estimated useful lives using the straight-line method. The estimated useful life of the customer base is 6 years.

Patents

Patents with definite useful lives are acquired from third parties and are recognised at costs less accumulated amortisation and any accumulated impairment losses. They are being amortised over the estimated useful lives using the straight-line method. The estimated useful lives of the patents are 7–18 years.

Trademark

Trademark with indefinite useful life is acquired from third parties and is recognised at cost less any accumulated impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill, trademark or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

Financial assets

Classification

The Group classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "pledged bank deposit" and "cash and cash equivalents" in the consolidated statement of financial position.

Recognition and measurements

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out ("FIFO") method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Share capital

Ordinary shares are classified as equity. Incremental costs are directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

Borrowings costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current and deferred income tax (Continued)

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

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

Bonus plans

Provisions for bonus plans due wholly within 12 months after the end of the reporting period are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Pension obligations

The Group maintains a number of defined contribution plans in the countries in which it operates. The assets of the retirement benefit are generally held in separate trustees-administered funds or insurance companies. The retirement plans are generally funded by payments from employees and by the Group.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based compensations

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and years of service of employees).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the profit or loss.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transaction and the specifics of each arrangement.

(i) Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of related receivables is reasonably assured.

(ii) Interest income is recognised using the effective interest method.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the consolidated and the Company's statement of financial position in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment of goodwill, trademark and other non-current assets

The Group tests annually whether goodwill and trademark with indefinite useful life have suffered any impairment (Note 16). Other non-financial assets including property, plant and equipment and other amortisable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value in use calculations or fair value less costs of disposal. These calculations require the use of judgements and estimates.

Determining whether goodwill and trademark are impaired requires an estimation of the recoverable amount which is the higher of fair value less costs of disposal and value in use of the CGUs to which goodwill and trademark have 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. When the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2017, the carrying amounts of goodwill and trademark were HK$101,340,000 (2016: HK$96,822,000) and HK$10,402,000 (2016: HK$nil) respectively with no impairment loss recognised. Details of the recoverable amount calculation are disclosed in note 16.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated profit or loss.

As further detailed in note 17, the Group's other non-current assets represented certain residential properties expected to be received in 2020 as part of the consideration from the disposal of a then indirect wholly owned subsidiary in July 2015. The residential properties to be received are related to a redevelopment project that transforms certain industrial area into residential area. The impairment assessment on the recoverability of the assets is based on the status of development of the redevelopment project and the latest expected market value of the residential properties upon completion. Such assessment requires significant judgement. As at 31st December, 2017 and 2016, the carrying amount of other non-current assets was HK$186,000,000 with no impairment loss recognised.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods. As at 31st December, 2017, the carrying amount of property, plant and equipment was HK$177,984,000 (2016: HK$136,339,000).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each statement of financial position date. As at 31st December, 2017, the carrying amount of inventories was HK$328,472,000 (2016: HK$324,838,000).

Current and deferred income taxes

The Group is subject to income taxes in Hong Kong, the People's Republic of China (the "PRC"), the United States, Vietnam and other jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such as differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimate, such differences will impact the recognition of deferred income tax assets and liabilities and taxation charges in the period in which such estimates have been changed. As at 31st December, 2017, the carrying amount of deferred tax assets was HK$13,891,000 (2016: HK$6,220,000) and deferred tax liabilities was HK$938,000 (2016: HK$663,000).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Consolidation of a subsidiary

In October 1999, there was a court judgement in connection with a claim made by a trade creditor. The Group's legal ownership of an indirect wholly owned subsidiary of the Company may be affected by the court judgement. The directors of the Company, based on independent legal advice, are of the opinion that the aforesaid judgement will have no material impact on Group's control in the subsidiary. Accordingly, the subsidiary continues to be treated as an indirectly held subsidiary of the Company and the financial results of this subsidiary are included in the consolidated financial statements.

5. REVENUE AND SEGMENT INFORMATION

The chief operating decision-makers ("CODM") have been identified as the Executive Directors. Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the CODM in order to assess performance and allocate resources. The CODM assess the performance of the reportable segments based on the profit and loss generated.

The Group's operating segments under HKFRS 8 are the United States, Europe, Mexico, Canada, South America, Australia and New Zealand and other locations based on the geographical location of customers.

The CODM assess the performance of the operating segments based on segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Assets of reportable segments exclude property, plant and equipment, intangible assets, deferred income tax assets and other corporate assets, all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, bank borrowings and other corporate liabilities. These are part of the reconciliation to total assets and liabilities of the consolidated statement of financial position.

The revenue from external parties, assets and liabilities, reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

There are two main businesses of the Group, including toys and lighting business. CODM did not consider the lighting business as a separate segment for both years as it is not material to the Group.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

For the year ended 31st December, 2017

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Unallocated HK$'000	Consolidated HK$'000
REVENUE									
External sales	1,248,335	90,154	4,996	50,284	7,712	25,836	6,691	–	1,434,008
RESULTS									
Segment profit (loss)	262,824	(7,537)	595	4,056	1,127	(1,153)	(2,024)	–	257,888
Unallocated income, gains and losses									1,044
Unallocated expenses									(150,001)
Finance costs									(2,049)
Profit before income tax									106,882
Other segment information:									
Depreciation and amortisation	30,131	4,078	91	602	143	343	101	3,718	39,207

For the year ended 31st December, 2016

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Unallocated HK$'000	Consolidated HK$'000
REVENUE									
External sales	1,092,870	28,587	9,387	70,577	9,387	24,781	11,629	–	1,247,218
RESULTS									
Segment profit (loss)	221,085	5,630	2,231	9,409	2,097	1,227	(5,627)	–	236,052
Unallocated income, gains and losses									98
Unallocated expenses									(100,853)
Finance costs									(22)
Profit before income tax									135,275
Other segment information:									
Depreciation and amortisation	30,561	572	136	779	137	218	81	3,935	36,419

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

Segment profit (loss) represents the profit (loss) before taxation from each segment without allocation of certain income, gains and losses, central administration costs and finance costs. This is the measure reported to the CODM, for purposes of resource allocation and performance assessment.

Segments assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment based on the geographical location of customers:

As at 31st December, 2017

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Consolidated HK$'000
ASSETS								
Segment assets	539,277	46,195	1,775	21,045	2,833	10,934	96,697	718,756
Property, plant and equipment								177,984
Leasehold land and land use rights								12,354
Unallocated and other corporate assets								397,992
Total assets								1,307,086
LIABILITIES								
Segment liabilities	91,017	26,670	332	3,340	512	1,816	10,109	133,796
Unallocated and other corporate liabilities								145,732
Total liabilities								279,528

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segments assets and liabilities (Continued)

As at 31st December, 2016

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Consolidated HK$'000
ASSETS								
Segment assets	465,721	17,762	2,575	23,579	2,580	14,100	74,363	600,680
Property, plant and equipment								136,339
Leasehold land and land use rights								12,837
Unallocated and other corporate assets								432,576
Total assets								1,182,432
LIABILITIES								
Segment liabilities	95,027	2,545	648	4,874	648	2,376	10,436	116,554
Unallocated and other corporate liabilities								85,696
Total liabilities								202,250

Note: Other locations include the PRC (including Hong Kong), Taiwan, Korea, Asia Pacific and others. These locations are considered by the CODM as one operating segment.

For the purposes of monitoring segment performances and allocating resources between segments, only inventories, trade receivables and certain other receivables are allocated to segment assets, and only trade payables and certain other payables and accruals are allocated to segment liabilities.

Other segment information

No analysis of capital expenditures is disclosed for both years as these items are neither included in segment assets nor segment results and are not reviewed by the CODM regularly.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major products

	2017	2016
	HK$'000	HK$'000
Toys	**1,362,940**	1,231,707
Lighting products	**71,068**	15,511
	1,434,008	1,247,218

Geographical information

The Group's operations are located in Hong Kong, Vietnam, the United States, the PRC, Europe and other countries.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	2017	2016
	HK$'000	HK$'000
Hong Kong	**1,493**	3,188
Vietnam	**137,562**	91,662
The United States	**12,778**	14,330
The PRC	**237,223**	236,250
Europe	**20,815**	870
Other countries	**4,446**	396
	414,317	346,696

Note: Non-current assets excluded intangible assets and deferred tax assets.

Information about major customers

For the year ended 31st December, 2017, there are 2 customers (2016: 2 customers) in the United States with revenue amounted to HK$799,978,000 (2016: HK$526,046,000) and HK$224,843,000 (2016: HK$298,612,000), contributing to approximately 55.8% and 15.7% (2016: 42.2% and 23.9%), respectively, of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

6. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income on bank deposits	**48**	26
Sales of scrap materials	**94**	903
Others	**2,127**	80
	2,269	1,009

7. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Gain (loss) on disposal of property, plant and equipment	**994**	(6)
Net exchange gain (loss)	**5,921**	(6,409)
(Provision for) reversal of impairment of trade receivables	**(3,341)**	422
	3,574	(5,993)

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interests on:		
Bank borrowings	**2,013**	22
Finance leases	**36**	–
	2,049	22

9. PROFIT BEFORE INCOME TAX

	2017 HK$'000	2016 HK$'000
Profit before income tax has been arrived at after charging (crediting):		
Raw materials and consumables used	**491,320**	325,481
Changes in inventories of finished goods and work-in-progress	**(50,357)**	(13,402)
Employee benefit expense *(Note 10)*	**539,341**	449,567
Depreciation of property, plant and equipment *(Note 14)*	**37,906**	35,938
Operating lease expenses	**26,279**	22,991
Advertising costs	**26,691**	34,330
Auditor's remuneration		
– Audit services	**3,941**	4,481
– Non-audit services	**1,844**	1,205
Amortisation of leasehold land and land use rights *(Note 15)*	**483**	481
Amortisation of intangible assets (included in cost of sales)	**818**	–
Royalty expenses	**28,042**	38,855
Freight charges	**25,307**	25,434
Litigation claim *(Note 32)*	**15,592**	–
Other expenses	**183,713**	181,576
	1,330,920	1,106,937
Representing:		
Cost of sales	**964,724**	797,933
Distribution and selling costs	**138,719**	136,811
Administrative and other expenses	**200,254**	150,508
Research and development costs	**27,223**	21,685
	1,330,920	1,106,937

10. EMPLOYEE BENEFIT EXPENSE

Employee benefits expense, including directors' emoluments, represents:

	2017 **HK$'000**	2016 HK$'000
Wages, salaries and bonuses	**500,534**	436,382
Retirement benefits – defined contribution plans	**5,128**	3,213
Staff welfare	**12,246**	9,972
Share-based payments *(note 28)*	**21,433**	–
	539,341	449,567

Retirement benefits – defined contribution plans

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Ordinance. Both the Group's and the employees' contributions are subject to a cap of HK$1,500 per month.

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute certain percentages of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Macau currently participate in a social security fund scheme operated by the local government. The contributions are fixed for domestic employees who meet certain eligibility requirements.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentage of the employees' payroll.

There are defined contribution retirement plans established in the United States for all domestic employees who meet certain eligibility requirements as to age and length of service.

During the year ended 31st December, 2017, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK$5,128,000 (2016: HK$3,213,000). As at 31st December, 2017, the Group was not entitled to any forfeited contributions to reduce its future contributions (2016: HK$nil).

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance, Companies (Disclosure of information about benefits of directors) Regulation and Listing Rules)

Directors' emoluments comprise payments by the Group to executive directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The independent non-executive directors' emoluments are mainly for their services as directors of the Company. The remuneration of each director and the chief executive for the year ended 31st December, 2017 is set out below:

Name	Fees HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive directors				
Cheng Yung Pun	–	1,118	–	1,118
Yu Sui Chuen	–	1,649	41	1,690
Cheng Wing See, Nathalie *(Note (ii))*	–	107	3	110
Arnold Edward Rubin *(Note (ii))*	–	8,204	–	8,204
Tse Kam Wah	–	1,474	18	1,492
Leung Hong Tai *(Note (iii))*	–	1,471	18	1,489
Tsang Chung Wa	–	1,180	18	1,198
Cheng King Cheung	–	1,833	92	1,925
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam	100	–	–	100
Mak Shiu Chung, Godfrey	100	–	–	100
Wan Hing Pui	100	–	–	100
Heng Ja Wei, Victor	100	–	–	100
Chief Executive				
Chen Wei Qing ("Mr. Chen") *(Note (i))*	–	1,344	18	1,362
	400	18,380	208	18,988

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance, Companies (Disclosure of information about benefits of directors) Regulation and Listing Rules) (Continued)

Directors' emoluments comprise payments by the Group to the executive directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The independent non-executive directors' emoluments are mainly for their services as directors of the Company. The remuneration of each director and the chief executive for the year ended 31st December, 2016 is set out below:

Name	Fees	Salary	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheng Yung Pun	–	1,118	–	1,118
Yu Sui Chuen	–	1,587	64	1,651
Cheng Wing See, Nathalie *(Note (ii))*	–	695	18	713
Arnold Edward Rubin *(Note (ii))*	–	5,008	103	5,111
Tse Kam Wah	–	1,530	18	1,548
Leung Hong Tai *(Note (iii))*	–	1,531	18	1,549
Tsang Chung Wa	–	1,180	18	1,198
Cheng King Cheung	–	1,833	92	1,925
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam	85	–	–	85
Mak Shiu Chung, Godfrey	85	–	–	85
Wan Hing Pui	85	–	–	85
Heng Ja Wei, Victor	85	–	–	85
Chief Executive				
Chen Wei Qing ("Mr. Chen") *(Note (i))*	–	1,389	18	1,407
	340	15,871	349	16,560

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance, Companies (Disclosure of information about benefits of directors) Regulation and Listing Rules) (Continued)

Notes:

(i) Mr. Chen is the chief executive of the Group and his remuneration disclosed above represents those for services rendered by him as the chief executive.

(ii) Mr. Arnold Edward Rubin and Ms. Cheng Wing See, Nathalie, resigned on 1st March, 2017 and 10th March, 2017, respectively. Mr. Arnold Edward Rubin received HK$4,869,000 as director's termination benefit during the year.

(iii) Mr. Leung Hong Tai has tendered his resignation to the Board as executive director of the Company in early March, 2018. His resignation will be made effective from 1st April, 2018.

(iv) No director or chief executive waived or agreed to waive any emoluments during the years ended 31st December, 2016 and 2017.

(v) No directors' retirement benefits were paid during the years ended 31st December, 2016 and 2017.

(vi) No directors' termination benefits were paid during the years ended 31st December, 2016.

(vii) No consideration was provided to third parties for making available directors' services during the years ended 31st December, 2016 and 2017.

(viii) There were no loans, quasi-loans and other dealings entered into by the Company or its subsidiary undertaking as at 31st December, 2016 and 2017.

(ix) 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2016: two) directors whose emoluments are reflected in the analysis shown above. The emoluments payable to the remaining four (2016: three) individuals during the year are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and allowances	3,973	6,016
Contributions to retirement benefit schemes and MPF Scheme	15	293
Share-based payments	17,003	–
	20,991	6,309

The emoluments fell within the following bands:

	Number of individuals 2017	2016
HK$1,500,001 to HK$2,000,000	–	2
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	1	–
HK$5,500,001 to HK$6,000,000	2	–
HK$6,000,001 to HK$6,500,000	1	–
	4	3

For both years, except for the termination benefits paid to a director as disclosed above, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX (CREDIT) EXPENSE

	2017	2016
	HK$'000	HK$'000
Current tax:		
– Hong Kong	**322**	121
– Other jurisdictions	**8,541**	8,813
(Over) underprovisions in prior years:		
– Hong Kong	**–**	4,198
– Other jurisdictions	**(2,505)**	36
Deferred tax *(Note 23)*	**(8,006)**	(547)
	(1,648)	12,621

Notes:

(i) Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(ii) Pursuant to the relevant Vietnam enterprise income tax rules and regulations, the applicable tax rates for subsidiaries operating in Vietnam range from 10.0% to 20.0% (2016: 7.5% to 20.0%) for the year.

(iii) The United States enterprise income tax rate for subsidiaries operating in the United States of America is 21% (2016: 34%) for the year.

11. INCOME TAX (CREDIT) EXPENSE (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2017 HK$'000	2016 HK$'000
Profit before income tax	**106,882**	135,275
Tax calculated at the applicable domestic tax rate of respective companies *(Note)*	**7,660**	8,678
Tax effects of:		
– Expenses not deductible for tax purposes	**7,598**	12,773
– Profits which are exempted from tax or under tax concessions	**(24,904)**	(25,073)
– Tax losses for which no deferred income tax assets have been recognised	**12,233**	12,074
(Over)underprovisions in prior years	**(2,505)**	4,234
Tax effects of change of tax rate in other jurisdictions	**1,651**	–
Others	**(3,381)**	(65)
	(1,648)	12,621

Note: The weighted average applicable tax rate was 7.2% (2016: 6.4%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

12. DIVIDENDS

The total dividends paid in 2017 and 2016 were HK$86,964,000 (HK11.5 cents per share) and HK$132,336,000 (HK17.5 cents per share), respectively. A final dividend in respect of the year ended 31st December, 2017 of HK5 cents (2016: HK7 cents) per share, amounting to approximately HK$37,810,000 (2016: HK$52,934,000), is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable as the final dividend was proposed after the date of statement of financial position and will be accounted for in equity as an appropriation of retained profits in the year ending 31st December, 2018 when approved at the forthcoming annual general meeting.

12. DIVIDENDS (Continued)

	2017 HK$'000	2016 HK$'000
Paid		
Interim dividend paid HK4.5 cents (2016: HK4.5 cents) per ordinary share	**34,030**	34,030
Proposed		
Final dividend proposed HK5 cents (2016: HK7 cents) per ordinary share	**37,810**	52,934

13. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2017 HK$'000	2016 HK$'000
Profit attributable to owners of the Company	**112,670**	122,654
	'000	'000
Weighted average number of ordinary shares in issue	**756,203**	756,203
	HK cents	HK cents
Basic and diluted earnings per share	**15**	16

Diluted earnings per share for the year ended 31st December, 2016 is same as the basic earnings per share because there were no dilutive potential ordinary shares in issue for 2016.

The computation of diluted earnings per share for the year ended 31st December, 2017 did not assume the exercise of the Company's share options because the exercise price of these share options was higher than the average market price of shares for the current year.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Construction in progress HK$'000	Others HK$'000 *(note)*	Total HK$'000
At 1st January, 2016							
Cost	110,431	35,251	154,127	125,656	–	31,033	456,498
Accumulated depreciation and impairment	(38,428)	(25,385)	(120,633)	(101,203)	–	(21,407)	(307,056)
Net book amount	72,003	9,866	33,494	24,453	–	9,626	149,442
Year ended 31st December, 2016							
Opening net book amount	72,003	9,866	33,494	24,453	–	9,626	149,442
Exchange adjustments	(472)	(150)	(1,031)	–	(75)	9	(1,719)
Additions	1,343	2,012	6,014	7,476	3,895	4,478	25,218
Disposals	–	–	(110)	–	–	(554)	(664)
Depreciation *(Note 9)*	(4,143)	(2,830)	(11,152)	(13,947)	–	(3,866)	(35,938)
Closing net book amount	68,731	8,898	27,215	17,982	3,820	9,693	136,339
At 31st December, 2016							
Cost	110,935	35,238	157,815	133,132	3,820	35,107	476,047
Accumulated depreciation and impairment	(42,204)	(26,340)	(130,600)	(115,150)	–	(25,414)	(339,708)
Net book amount	68,731	8,898	27,215	17,982	3,820	9,693	136,339
At 1st January, 2017							
Cost	110,935	35,238	157,815	133,132	3,820	35,107	476,047
Accumulated depreciation and impairment	(42,204)	(26,340)	(130,600)	(115,150)	–	(25,414)	(339,708)
Net book amount	68,731	8,898	27,215	17,982	3,820	9,693	136,339
Year ended 31st December, 2017							
Opening net book amount	68,731	8,898	27,215	17,982	3,820	9,693	136,339
Exchange adjustments	454	82	1,966	–	42	696	3,240
Additions	3,571	866	29,225	11,060	7,391	3,482	55,595
Acquired on acquisitions of businesses *(Note 27)*	–	463	15,066	–	–	5,883	21,412
Disposals	–	(235)	(199)	–	–	(262)	(696)
Depreciation *(Note 9)*	(4,253)	(2,811)	(15,741)	(9,672)	–	(5,429)	(37,906)
Closing net book amount	68,503	7,263	57,532	19,370	11,253	14,063	177,984
At 31st December, 2017							
Cost	108,076	37,609	193,234	144,192	11,253	51,137	545,501
Accumulated depreciation and impairment	(39,573)	(30,346)	(135,702)	(124,822)	–	(37,074)	(367,517)
Net book amount	68,503	7,263	57,532	19,370	11,253	14,063	177,984

Note: Others mainly represent tooling equipments, containers and motor vehicles.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation expense is analysed as follows:

	2017	2016
	HK$'000	HK$'000
Cost of sales	**30,668**	30,327
Administrative expenses	**7,238**	5,611
	37,906	35,938

As at 31st December, 2017, buildings of approximately HK$27,200,000 (2016: HK$28,253,000) were frozen by Zhuhai Intermediate Court and Zhongshan Intermediate Court, respectively, (the "Court") in relation to a legal claim lodged by a third party (the "Plaintiff") against a subsidiary of the Company for a breach of a distribution agreement. Pursuant to the court judgement, the subsidiary was liable to pay the Plaintiff an amount of approximately HK$5,172,000. A full legal claim provision was made by the Group in prior years and HK$4,472,000 was paid by the Group in 2011. Based on independent legal advice in prior years, the directors are of the opinion that the land and building being frozen by the Court will be released upon the settlement of all the legal claim and do not have material impact on the financial position and operations of the Group.

The net book amounts of certain machinery and motor vehicles included an amount of approximately HK$7,176,000 and HK$512,000 respectively in respect of assets held under finance leases as at 31st December, 2017 (2016: HK$nil).

15. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights are analysed as follows:

	2017	2016
	HK$'000	HK$'000
At 1st January	**12,837**	13,318
Amortisation *(Note 9)*	**(483)**	(481)
At 31st December	**12,354**	12,837

16. INTANGIBLE ASSETS

	Goodwill HK$'000	Customer base HK$'000	Patents HK$'000	Trademark HK$'000	Total HK$'000
COST					
At 1st January, 2016, 31st December, 2016	96,822	74,620	–	–	171,442
Exchange difference	478	–	–	1,100	1,578
Additions	–	–	9,753	–	9,753
Acquired on acquisitions of business *(note 27(a))*	4,040	–	–	9,302	13,342
At 31st December, 2017	101,340	74,620	9,753	10,402	196,115
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1st January, 2016, 31st December, 2016	–	(74,620)	–	–	(74,620)
Amortisation	–	–	(818)	–	(818)
At 31st December, 2017	–	(74,620)	(818)	–	(75,438)
CARRYING AMOUNT					
At 31st December, 2017	101,340	–	8,935	10,402	120,677
At 31st December, 2016	96,822	–	–	–	96,822

Except for goodwill and trademark, the above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Customer base	6 years
Patents	7 to 18 years

The trademark acquired through a business combination in the current year has a legal life of 10 years but is renewable every 10 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

16. INTANGIBLE ASSETS (Continued)

Impairment test for goodwill of trading of toys

Goodwill of HK$96,822,000 (2016: HK$96,822,000) is mainly allocated to the Group's cash-generating unit in the trading of toys in the United States market related to the acquisition of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group") in 2007 ("CGU A"). The Group performs impairment tests on goodwill annually, or more frequently if there is any indication that it may be impaired, by comparing the recoverable amount to the carrying amount as at the date of statement of financial position.

The recoverable amount of the CGU A was determined based on a value in use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using a zero percent growth rate. Management determined budgeted gross margin based on past performance and its expectations of the market development. The pre-tax discount rate applied to the cash flow projection is 15.7% (2016: 15.7%) and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow projection is 3% (2016: 3.5%). Based on the value in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2017.

The recoverable amount calculated based on value in use exceeded carrying value of the CGU A. If the sales growth applied to the cash flow projection reduced to 3.0% for the year ending 31st December, 2019 and 2.5% for the years ending 31st December, 2020 and 2021, there would not be an impact on the carrying value of goodwill. If the estimated discount rate used in determining the recoverable amount of CGU A had been 1% higher than management's estimates as at 31st December, 2017, there would not be an impact on the carrying value of goodwill.

Impairment test for goodwill and trademark of lighting business

Goodwill of HK$4,518,000 (2016: HK$nil) and trademark of HK$10,402,000 (2016: HK$nil) are allocated to the Group's cash-generating unit in the design, manufacturing, marketing and distribution of energy efficient lighting products related to the acquisition of Fern-Howard Limited ("Fern-Howard")("CGU B"). The Group performs impairment tests on goodwill and trademark annually, or more frequently if there is any indication that it may be impaired, by comparing the recoverable amount to the carrying amount as at the date of statement of financial position.

The recoverable amount of the CGU B was determined based on a value in use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using a zero percent growth rate. Management determined budgeted gross margin based on past performance and its expectations of the market development. The pre-tax discount rate applied to the cash flow projection is 11.4% and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow projection is 3%. Based on the value in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2017.

17. OTHER NON-CURRENT ASSETS

On 2nd July, 2015, Shelcore Hong Kong Limited, a then wholly-owned subsidiary of the Group which mainly held the land and building in Shenzhen, was disposed of to Shenzhen Shouxi Property Investment Development Company Limited ("Shenzhen Shouxi"), an independent third party. Consideration for the disposal was RMB272,000,000 (approximately HK$337,280,000), including RMB40,000,000 (approximately HK$49,566,000) cash and RMB232,000,000 (approximately HK$287,680,000) worth of residential properties expected to be delivered to the Group in 2020. Further details of the disposal were disclosed in the announcement and circular dated 18th June, 2015 and 24th July, 2015 respectively.

The management of the Company estimated that the fair value of the right to receive the residential properties is RMB150,000,000 (approximately HK$186,000,000) at the date of the disposal with reference to the valuation performed by an independent valuer.

The right to receive the residential properties is classified as other non-current assets based on the fair value at the disposal date and subsequently carries at cost less impairment. No impairment loss is recognised for the year ended 31st December, 2017 and 2016.

18. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials	**145,685**	91,694
Work in progress	**40,626**	52,172
Finished goods	**142,161**	180,972
	328,472	324,838

The cost of inventories is recognised as expense and included in "cost of sales" amounted to HK$964,724,000 (2016: HK$797,933,000).

19. DEPOSITS PAID, TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2017 HK$'000	2016 HK$'000
Trade receivables	295,557	217,472
Less: Allowance for doubtful debts	(8,047)	(5,113)
	287,510	212,359
Prepayments	27,945	22,018
Other deposits and other receivables	22,017	26,351
Deposits paid for purchase of raw materials	11,223	1,956
Deposits paid for purchase of property, plant and equipment	30,940	9,201
Deposits paid for purchase of patents	4,877	–
Rental and utilities deposits	5,772	3,956
	390,284	275,841
Less: Non-current deposits paid	(37,979)	(11,520)
	352,305	264,321

The Group allows a credit period of 14 to 90 days to its trade customers. An ageing analysis of trade receivables based on invoice date at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
0 – 60 days	234,335	170,310
61 – 90 days	45,649	36,134
More than 90 days	7,526	5,915
	287,510	212,359

As of 31st December, 2017, trade receivables of HK$253,905,000 (2016: HK$179,501,000) were fully performing and not past due.

19. DEPOSITS PAID, TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

As of 31st December, 2017, trade receivables of HK$33,605,000 (2016: HK$32,858,000) were past due but not impaired. These related to a number of independent customers for whom there is no significant financial difficulty and based on past experiences, the overdue amounts can be recovered. The ageing analysis of these trade receivables which are past due but not impaired based on invoice date at the end of the reporting date is as follows:

	2017	2016
	HK$'000	HK$'000
0 – 60 days	**30,483**	28,178
61 – 90 days	**451**	747
More than 90 days	**2,671**	3,933
	33,605	32,858

As of 31st December, 2017, the Group has provided for impairment of HK$8,047,000 (2016: HK$5,113,000) on certain individually impaired trade receivables who have either been placed under liquidation or in severe financial difficulties.

Movements in the Group's provision for impairment of trade receivables are as follows:

	2017	2016
	HK$'000	HK$'000
At 1st January	**5,113**	5,535
Provision for (reversal of) impairment of trade receivables	**3,341**	(422)
Amount written-off as uncollectible	**(419)**	–
Exchange difference	**12**	–
At 31st December	**8,047**	5,113

The other classes within trade and other receivables and prepayments do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

19. DEPOSITS PAID, TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

The carrying amounts of the Group's deposits paid, trade and other receivables and prepayments are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	**26,100**	81,273
United States Dollars ("US$")	**295,998**	155,646
Other currencies	**68,186**	38,922
	390,284	275,841

20. PLEDGED BANK DEPOSIT AND CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash at bank and on hand	**74,284**	143,381
Denominated in:		
HK$	**16,580**	27,544
US$	**45,822**	77,629
Other currencies	**11,882**	38,208
	74,284	143,381

Cash at banks earns interest at floating rates based on daily bank deposit rates.

As at 31st December, 2017, HK$nil (2016: HK$136,000) is pledged deposit held at bank as collateral for term loan provided by the bank.

21. SHARE CAPITAL

	Number of shares '000	**Ordinary shares HK$'000**
At 1st January, 2016, 31st December, 2016 and 2017	756,203	75,620

The total authorised number of ordinary shares is 1,000 million shares (2016: 1,000 million shares) with a par value of HK$0.1 per share (2016: HK$0.1 per share). All issued shares are fully paid.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

22. RESERVES

Shareholders' contribution

The shareholders' contribution represented the deemed contribution arising from the loan from ultimate holding company which was non-current and interest-free.

Other reserves

Other reserves mainly comprise statutory reserve in the PRC and legal reserve in Macau.

23. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable tax rates.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	2017 **HK$'000**	2016 HK$'000
Deferred tax liabilities	**938**	663
Deferred tax assets	**(13,891)**	(6,220)
	(12,953)	(5,557)

The movements in net deferred income tax (assets) liabilities are as follows:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Allowance for doubtful debts** HK$'000	**Others** HK$'000 *(Note)*	**Total** HK$'000
At 1st January, 2016	(1,271)	(344)	(1,435)	(1,960)	(5,010)
(Credited) debited to profit or loss *(Note 11)*	(1,467)	195	1,045	(320)	(547)
At 31st December, 2016	(2,738)	(149)	(390)	(2,280)	(5,557)
Debited (credited) to profit or loss *(Note 11)*	607	(5,171)	(351)	(3,091)	(8,006)
Acquisitions of business *(Note 27)*	378	–	–	–	378
Exchange difference	232	–	–	–	232
At 31st December, 2017	(1,521)	(5,320)	(741)	(5,371)	(12,953)

Note: The amount represents the temporary differences arising from deferred rent, accrued vacation and bonus in the subsidiaries operating in the United States.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31st December, 2017, the Group had tax losses of HK$113,072,000 (2016: HK$39,396,000) for which no deferred tax asset has been recognised due to unpredictability of future profit streams. Such tax losses may be carried forward indefinitely.

24. OBLIGATIONS UNDER FINANCE LEASES

	2017 HK$'000	2016 HK$'000
Analysed for reporting purpose as:		
Non-current	1,469	–
Current	1,749	–
	3,218	–

The Group has leased certain machinery and motor vehicles under finance leases. The lease terms were ranged from two to five years. Interest rates underlying the obligations under finance leases were fixed at the range from 6% to 9% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Amounts payable under finance leases:				
Within one year	1,911	–	1,749	–
In more than one year but within two years	1,146	–	1,090	–
In more than two years but within five years	388	–	379	–
	3,445	–	3,218	–
Less: Future finance charges	(227)	–	–	–
Present value of lease obligation	3,218	–	3,218	–
Less: Amount due for settlement within one year (shown under current liabilities)			(1,749)	–
Amount due for settlement after 12 months			1,469	–

25. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade and other payables and accruals principally comprise amounts outstanding for trade purposes and daily operating costs.

	2017 **HK$'000**	2016 HK$'000
Trade payables	**95,263**	86,137
Accrued employee benefit expenses	**53,352**	47,343
Advance receipts from customers	**37,739**	9,059
Other payables and accruals	**26,881**	49,148
	213,235	191,687

The credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	2017 **HK$'000**	2016 HK$'000
0 – 60 days	**68,318**	55,110
61 – 90 days	**18,474**	16,042
More than 90 days	**8,471**	14,985
	95,263	86,137

The carrying amounts of the trade and other payables and accruals are denominated in the following currencies:

	2017 **HK$'000**	2016 HK$'000
HK$	**53,829**	66,186
US$	**67,457**	57,586
Other currencies	**91,949**	67,915
	213,235	191,687

26. BANK BORROWINGS

	2017	2016
	HK$'000	HK$'000
Secured	**53,567**	1,363

At 31st December, 2017 and 2016, the Group's bank borrowings were repayable within one year. The carrying value of the bank borrowings approximated its fair value.

As at 31st December, 2017, the effective interest rate of the variable-rate bank borrowings was 4.2% (2016: 4.9%) per annum.

As at 31st December, 2017, a subsidiary of the Company provided floating charge on certain of its assets including property, plant and equipment, trade receivables and inventories which approximated to HK$200,352,000 (2016: HK$229,000,000) to a bank for banking facilities with credit limit of HK$54,600,000 (2016: HK$33,150,000) granted to it.

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2017	2016
	HK$'000	HK$'000
HK$	**10,790**	1,295
US$	**27,300**	–
British Pounds ("GBP")	**15,477**	–
Other currencies	**–**	68
	53,567	1,363

27. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of Fern-Howard

On 16th January, 2017, the Group acquired a 65% interest in Fern-Howard from an independent third party. The consideration of the transaction was HK$25,121,000 and settled in cash. Fern-Howard is principally engaged in the design, manufacture, marketing and distribution of energy efficient lighting products.

Consideration transferred

	HK$'000
Cash	25,121

Acquisition-related costs amounting to HK$1,108,000 have been excluded from the consideration transferred and have been recognised as administrative and other expenses in the current year.

Fair value of assets acquired and liabilities assumed at the date of acquisition recognised by the Group:

	HK$'000
Cash and cash equivalents	6,247
Trade and other receivables	16,779
Inventories	10,620
Property, plant and equipment	20,467
Intangible assets	9,302
Trade and other payables	(19,613)
Bank borrowings	(6,804)
Obligation under a finance lease	(4,188)
Deferred tax liabilities	(378)
	32,432

The receivables acquired (which principally comprised trade receivables) with a fair value of HK$16,779,000 at the date of acquisition had gross contractual amounts of HK$16,779,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$nil.

27. ACQUISITIONS OF SUBSIDIARIES (Continued)

(a) Acquisition of Fern-Howard (Continued)

Goodwill arising on acquisition

	HK$'000
Consideration transferred	25,121
Add: non-controlling interests (35% in Fern-Howard)	11,351
Less: net assets acquired	(32,432)
Goodwill arising on acquisition	4,040

The goodwill arose on the acquisition was attributable to the benefits of expected synergies of lighting business that developed by the Group and Fern-Howard, revenue and future market development of Fern-Howard. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

Non-controlling interests

The non-controlling interests (35%) in Fern-Howard recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Fern-Howard and amounted to HK$11,351,000.

Net cash outflow arising on acquisition

	HK$'000
Bank balances and cash acquired	6,247
Cash consideration paid	(25,121)
	(18,874)

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31st December, 2017 was a loss of HK$11,829,000 attributable to the acquisition of Fern-Howard. Revenue of Fern-Howard included in the Group's revenue for the year ended 31st December, 2017 amounted to HK$62,522,000.

27. ACQUISITIONS OF SUBSIDIARIES (Continued)

(b) Acquisition of 3LED Electronics Company Limited ("3LED")

On 5th April, 2017, the Group acquired a 100% interest in 3LED from independent third parties. The consideration of the transaction was HK$1,438,000 and settled in cash. 3LED is principally engaged in the development of high-end LED products.

Consideration transferred

	HK$'000
Cash	1,438

Assets acquired and liabilities assumed at the date of acquisition by the Group

	HK$'000
Other receivables	4,166
Inventories	1,662
Property, plant and equipment	945
Trade and other payables	(3,938)
Bank borrowing	(1,022)
	1,813

Bargain purchase arising on acquisition

	HK$'000
Consideration transferred	1,438
Less: net assets acquired (100%)	(1,813)
Gain on bargain purchase (included in other income)	(375)

Net cash outflow arising on acquisition

	HK$'000
Cash consideration paid	(1,438)

27. ACQUISITIONS OF SUBSIDIARIES (Continued)

(b) Acquisition of 3LED Electronics Company Limited (“3LED”) (Continued)

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31st December, 2017 is a loss of HK$2,665,000 attributable from 3LED. No revenue was contributed by 3LED for the year ended 31st December, 2017.

Had the acquisition of Fern-Howard and 3LED been effected at the beginning of the current year, the total amount of revenue of the Group for the year ended 31st December, 2017 would have been HK$1,440,529,000, and the amount of the profit for the year ended 31st December, 2017 would have been HK$106,709,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the current year, nor is it intended to be a projection of future results.

28. SHARE OPTION SCHEME

On 4th May, 2012, the Company adopted a share option scheme (the “Option Scheme”). The Option Scheme will remain in force for a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted. The purpose of the Option Scheme is to enable the Company to grant options to selected eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries. Details are stated in “SHARE OPTION SCHEME” section of the annual report.

On 8th May, 2017 and 15th May, 2017, 24,000,000 and 2,600,000 share options were granted to the employees of the Group under the Option Scheme. Details are stated as below:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
2017a	8th May, 2017	90 days	6th August, 2017 to 6th August 2020	HK$3.138
2017b	15th May, 2017	90 days	13th August, 2017 to 13th August 2020	HK$3.050

28. SHARE OPTION SCHEME (Continued)

The fair value was calculated using the Binominal Option Pricing Model. The inputs into the model are as follows:

	Option type	
	2017a	2017b
	HK$'000	HK$'000
Weighted average share price	**HK$3.050**	HK$2.950
Exercise price	**HK$3.138**	HK$3.050
Expected volatility *(Note a)*	**46.97%**	46.57%
Exercise life	**3.2 years**	3.2 years
Risk-free rate *(Note b)*	**0.94%**	0.89%
Expected dividend yield	**3.96%**	3.97%

Notes:

(a) Expected volatility was determined based on the historical volatility of the Company's share price over the previous three years.

(b) Risk-free rate was determined based on the yield of exchange fund notes of Hong Kong Monetary Authority.

The binomial option pricing model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the best assessment of the directors of the Company on the valuer's estimation. Changes in variables and assumptions may result in changes in the fair value of the share options.

The estimated fair value of the options granted were approximately HK$19,432,000 and HK$2,001,000 respectively. During the year ended 31st December, 2017, the Group recognised share-based payments of HK$19,432,000 and HK$2,001,000 respectively in profit or loss and the corresponding amount has been credited to the share option reserve. No liabilities were recognised due to share-based payment transactions.

29. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables and accruals and bank borrowings.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

	2017 **HK$'000**	2016 HK$'000
Financial assets – loans and receivables		
– Trade and other receivables	**298,779**	233,889
– Pledged bank deposit	**–**	136
– Cash and cash equivalents	**74,284**	143,381
	373,063	377,406
Financial liabilities – other financial liabilities at amortised cost		
– Trade and other payables and accruals	**122,144**	135,285
– Bank borrowings	**53,567**	1,363
	175,711	136,648
Obligation under finance leases	**3,218**	–

29. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

Market risk

Foreign exchange risk

The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$ and the Vietnamese Dong ("VND"). Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

In the opinion of the directors, the HK$ is reasonably stable with respect to the US$ under the Linked Exchange Rate System, and accordingly, the Company does not have any significant foreign exchange risk in respect of transactions or balances as denominated in US$. Accordingly, no sensitivity analysis is performed.

At 31st December, 2017, if the VND had strengthened/weakened by 5% against the HK$, with all other variables held constant, profit for the year would have been approximately HK$9,242,000 (2016: HK$6,968,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of the VND denominated net monetary assets.

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk primarily relates to the bank balances as at 31st December, 2017 and 2016 and bank borrowings as at 31st December, 2017. The Group's fair value interest rate risk primarily relates to the obligations under finance leases.

The Group has not used any interest rate hedging policy to mitigate its exposure associated with interest rate risk. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

In the opinion of management of the Group, the expected change in interest rate will not have significant impact on the interest income on bank balances, hence sensitivity analysis is not presented. In addition, the management of the Company considers the fair value interest rate risk related to obligations under finance leases is insignificant.

29. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

Market risk (Continued)

Cash flow and fair value interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of outstanding balances at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2017 would decrease/increase by HK$448,000.

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

Credit risk

Credit risk mainly arises from trade and other receivables and cash and cash equivalents included in the consolidated statement of financial position. The Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31st December, 2017, all bank balances and bank deposits were held at reputable financial institutions. Management makes periodic assessments on the recoverability of receivables and deposits, and is of the opinion that adequate provision for receivables with significant credit risk has been made.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for the addition of and upgrade on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

29. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand or less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 4 to 12 months HK$'000	Between 1 to 2 years HK$'000	Between 2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31st December, 2017							
Trade and other payables and accruals	69,037	53,107	–	–	–	122,144	122,144
Bank borrowings	–	53,755	–	–	–	53,755	53,567
Obligations under finance leases	178	356	1,377	1,146	388	3,445	3,218
	69,215	107,218	1,377	1,146	388	179,344	178,929
As at 31st December, 2016							
Trade and other payables and accruals	74,788	60,497	–	–	–	135,285	135,285
Bank borrowings	1,298	18	53	–	–	1,369	1,363
	76,086	60,515	53	–	–	136,654	136,648

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders, issue of new shares as well as the issue of new debts or the repayment of existing debts.

The Group also monitors capital on the basis of gearing ratio and the compliance of covenants of its borrowings. The gearing ratio is calculated as total debt divided by equity attributable to owners of the Company. Total debt is calculated as total borrowings (including obligations under finance leases and bank borrowings as shown in the consolidated statement of financial position). Equity attributable to owners of the Company is "total equity", as shown in the consolidated statement of financial position.

29. FINANCIAL RISK MANAGEMENT (Continued)

Capital management (Continued)

The table below analyses the Group's capital structure as at 31st December, 2017 and 2016:

	2017 HK$'000	2016 HK$'000
Total borrowings	**53,567**	1,363
Total equity	**1,027,558**	980,182
Gearing ratio	**5.21%**	0.14%

The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, the Group's financial liabilities, including trade and other payables and bank borrowings, approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

30. 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.

Reconciliation of liabilities arising from financing activities

	Bank borrowings	Dividend payable (included in other payable)	Obligations under finance leases	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2017	1,363	226	–	1,589
Financing cash flows	42,093	(86,964)	(1,430)	(46,301)
Non-cash changes				
Dividend declared	–	86,962	–	86,962
Acquisitions of businesses *(Note 27)*	7,826	–	4,188	12,014
Foreign currency translation	272	–	424	696
Interest expense	2,013	–	36	2,049
	10,111	86,962	4,648	101,721
At 31st December, 2017	53,567	224	3,218	57,009

31. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2017	2016
	HK$'000	HK$'000
Property, plant and equipment	**27,727**	10,795

32. CONTINGENT LIABILITIES

Matrix Resources Enterprise Limited, Keyhinge Enterprises (Macao Commercial Offshore) Co Ltd. and Maxguard Limited, subsidiaries of the Company (the "Subsidiaries"), are involved in a litigation related to the claims of fund transfer from Matrix Distribution Limited ("MDL") for no legitimate commercial purpose or justification.

As at 31st December, 2016, the legal claims were in progress and the results were uncertain. On the basis of legal advice obtained, the Directors were of the opinion that there was no present obligation to pay any claims arising from this litigation existed as at 31st December, 2016. Therefore, no provision has been made in the consolidated financial statements for the year ended 31st December, 2016 in respect of these matters.

During the year, the parties involved in the litigation have negotiated the settlement of claims in order to minimise the potential legal costs and a settlement amount of HK$15,592,000 was agreed amongst the parties and a litigation claim expense of HK$15,592,000 is recognised and included in the administrative and other expenses in the consolidated statement of profit or loss and other comprehensive income.

33. OPERATING LEASE COMMITMENTS

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

	2017 **HK$'000**	2016 HK$'000
No later than 1 year	**17,323**	16,050
Later than 1 year and no later than 5 years	**16,816**	23,551
Later than 5 years	**37,160**	12,901
	71,299	52,502

Operating lease payments represent rentals payable by the Group for its factory, office premises and showrooms. Leases are negotiated for a term of 8 to 50 years in respect of the factory premises and a term of 1 to 10 years for office premises, showrooms and retail shops. The rentals are fixed throughout the lease period.

34. RELATED PARTY TRANSACTIONS

The Group is controlled by Smart Forest Limited (incorporated in the British Virgin Islands ("BVI")), which owns 72.02% of the Company's shares. The remaining 27.98% of the shares are widely held. The ultimate parent of the Group is Smart Forest Limited (incorporated in the BVI). The ultimate controlling party of the Group is Mr. Cheng Yung Pun.

In addition to those disclosed in the consolidated financial statements, there were no related party transactions that the Group entered into during the year.

Key management compensation

	2017	2016
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**18,380**	15,871
Post-employment benefits	**208**	349
	18,588	16,220

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

35. COMPARATIVE FIGURES

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year's presentation of the Group.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2016 and 2017 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Particulars of issued/ paid-in capital	Interest held		Principal activities
			2017 Indirectly	2016 Indirectly	
Funrise, Inc.	The United States	US$7,500 common shares	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Funrise Toys Limited	Hong Kong	HK$10,000 preference shares HK$90,000 ordinary shares HK$10,000 redeemable shares	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000 quota capital	**100%**	100%	Purchase and trading of toys
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$14,960,000 contributed legal capital	**100%**	100%	Manufacture of toys
Keyhinge Toys Vietnam Joint Stock Company	Vietnam	US$10,261,000 contributed legal capital	**100%**	100%	Manufacture of toys and lighting products
Matrix Vinh Company Limited	Vietnam	US$4,849,000 contributed legal capital	**100%**	100%	Manufacture of toys

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ operation	Particulars of issued/ paid-in capital	Interest held		Principal activities
			2017 Indirectly	2016 Indirectly	
Mega Management Services Limited	Hong Kong	HK$10 ordinary shares	**100%**	100%	Provision of management services
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ")	PRC *(Note)*	US$5,910,000 registered capital	**100%**	100%	Manufacture of toys
Matrix Lighting Limited	BVI	US$10 ordinary shares	**100%**	100%	Trading of lighting products
Viribright Lighting Inc.	The United States	US$10,000 common shares of stock	**100%**	100%	Trading of lighting products
Fern-Howard Limited	The United Kingdom	GBP2,769,252 ordinary shares	**65%**	–	Manufacture and trading of lighting products
3LED Electronics Company Limited	Taiwan	Taiwan Dollar 15,000,000 ordinary shares	**100%**	–	Development of high-end LED products
Assetnet Limited	BVI	US$10 ordinary shares	**100%**	100%	Investment holding

Note: MPMZ is a wholly foreign owned enterprise.

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Fern-Howard	The United Kingdom	**35%**	–	**(4,140)**	–	**7,211**	–

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Summarised consolidated financial information for 2017 in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Fern-Howard	**As at 31st December 2017** HK$'000
Non-current assets	30,011
Current assets	29,368
Non-current liabilities	(1,891)
Current liabilities	(35,889)
Total equity	21,599
Equity attributable to owners of Fern-Howard	14,388
Non-controlling interests	7,211
	21,599

	For the period from 16th January, 2017 (date of acquisition) to 31st December, 2017 HK$'000
Revenue	62,522
Other income	1,676
Expenses	(76,027)
Loss for the period	(11,829)
Other comprehensive income for the period	999
Total comprehensive expense for the period	(10,830)
Loss for the period attributable to:	
– owners of Fern-Howard	(7,689)
– non-controlling interests	(4,140)
Loss for the period	(11,829)

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

	For the period from 16th January, 2017 (date of acquisition) to 31st December, 2017
	HK$'000
Other comprehensive income for the period attributable to:	
– owners of Fern-Howard	999
– non-controlling interests	–
Other comprehensive income for the period	999
Total comprehensive expense for the period attributable to:	
– owners of Fern-Howard	(6,690)
– non-controlling interests	(4,140)
Total comprehensive expense for the period	(10,830)
Net cash outflow from operating activities	(12,252)
Net cash outflow from investing activities	(435)
Net cash inflow from financing activities	6,518
Cash outflow	(6,169)

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

Statement of financial position of the Company

	2017 HK$'000	2016 HK$'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**232,802**	153,423
Amount due from a subsidiary	**347,339**	–
	580,141	153,423
Current assets		
Deposits and prepayments	**635**	4,151
Amounts due from subsidiaries	**284,771**	426,718
Cash and cash equivalents	**178**	257
	285,584	431,126
Total assets	**865,725**	584,549
Equity and liabilities		
Capital and reserves attributable to owners of the Company		
Share capital	**75,620**	75,620
Reserves *(Note)*	**581,041**	315,642
Total equity	**656,661**	391,262
LIABILITIES		
Current liabilities		
Other payables and accruals	**1,194**	3,447
Amounts due to subsidiaries	**207,870**	189,840
	209,064	193,287
Total liabilities	**209,064**	193,287
Total equity and liabilities	**865,725**	584,549

37. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note: Reserve movement of the Company

	Share premium HK$'000	Shareholders' contribution HK$'000 *(Note 22)*	Contributed surplus HK$'000	Share options reserves HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January, 2016	189,090	19,689	3,661	–	139,823	352,263
Profit and total comprehensive income for the year	–	–	–	–	95,715	95,715
Dividends paid *(Note 12)*	–	–	–	–	(132,336)	(132,336)
Balance at 31st December, 2016	189,090	19,689	3,661	–	103,202	315,642
Balance at 1st January, 2017	189,090	19,689	3,661	–	103,202	315,642
Recognition of equity-settled share based payment	–	–	–	21,433	–	21,433
Profit and total comprehensive income for the year	–	–	–	–	330,930	330,930
Dividends paid *(Note 12)*	–	–	–	–	(86,964)	(86,964)
Balance at 31st December, 2017	189,090	19,689	3,661	21,433	347,168	581,041

38. SUBSEQUENT EVENTS

In January 2018, Assetnet Limited, an indirect wholly-owned subsidiary of the Group, as the borrower entered into a loan agreement for an aggregate loan amount of RMB225,000,000 (approximately HK$265,500,000) for a term of one year. The loan is interest-bearing at 3% per annum, secured by the right to purchase of the other non-current assets as detailed in note 17, and will be made available to Assetnet Limited in two tranches. Further details are set out in the announcement of the Company dated 8th January, 2018.

Up to the date of issuance of these consolidated financial statements, the first tranche amounting to RMB100,000,000 (approximately HK$118,000,000) has been drawn by the Group.

Financial Summary

	For the year ended 31st December,				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	1,034,079	1,160,119	1,277,063	1,247,218	**1,434,008**
Profit before taxation	83,025	125,084	396,942	135,275	**106,882**
Income tax credit/(expenses)	15,021	(7,186)	(9,069)	(12,621)	**1,648**
Profit for the year	98,046	117,898	387,873	122,654	**108,530**
Attributable to:					
Owners of the Company	98,046	117,898	387,873	122,654	**112,670**
Non-controlling interests	–	–	–	–	**(4,140)**
	98,046	117,898	387,873	122,654	**108,530**
	HK$	HK$	HK$	HK$	**HK$**
Earnings per share					
Basic	0.13	0.16	0.51	0.16	**0.15**
Diluted	0.13	0.16	0.51	0.16	**0.15**

	As at 31st December,				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	877,388	877,282	1,153,312	1,182,432	**1,307,086**
Total liabilities	(260,101)	(199,676)	(168,407)	(202,250)	**(279,528)**
	617,287	677,606	984,905	980,182	**1,027,558**
Equity attributable to					
Owners of the Company	617,287	677,606	984,905	980,182	**1,020,347**
Non-controlling interests	–	–	–	–	**7,211**
	617,287	677,606	984,905	980,182	**1,027,558**