Prosperous Printing Company Limited
萬里印刷有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 8385)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Prosperous Printing Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2018.

This announcement, containing the full text of the 2018 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") in relation to information to accompany preliminary announcement of annual results. Printed version of the 2018 Annual Report of the Company of the Company containing the information required by the GEM Listing Rules will be dispatched to the shareholders of the Company and available for viewing on the GEM website at the www.hkgem.com on the "Latest Company Announcements" page and on the Company's website at www.prosperous-printing-group.com.hk.

By order of the Board
Prosperous Printing Company Limited
Mr. Lam Sam Ming
Chairman and Executive Director

Hong Kong, 25 March 2019

As at the date of this announcement, the executive Directors are Mr. Lam Sam Ming, Ms. Chan Sau Po and Ms. Yao Yuan; the non-executive Director is Mr. Ong Chor Wei; and the independent non-executive Directors are Ms. Cheung Yin, Mr. Wong Hei Chiu and Mr. Leung Vincent Gar-Gene.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website (www.hkgem.com) for at least seven days from the day of its posting. This announcement will also be published on the Company's website at www.prosperous-printing-group.com.hk.

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This report, for which the directors (the "**Directors**") of Prosperous Printing Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Sam Ming *(Chairman)*
Ms. Yao Yuan
Ms. Chan Sau Po

Non-executive Director

Mr. Ong Chor Wei

Independent non-executive Directors

Ms. Cheung Yin
Mr. Wong Hei Chiu
Mr. Leung Vincent Gar-Gene

AUDIT COMMITTEE

Ms. Cheung Yin *(Chairman)*
Mr. Wong Hei Chiu
Mr. Leung Vincent Gar-Gene

REMUNERATION COMMITTEE

Mr. Wong Hei Chiu *(Chairman)*
Ms. Cheung Yin
Mr. Lam Sam Ming

NOMINATION COMMITTEE

Mr. Lam Sam Ming *(Chairman)*
Mr. Wong Hei Chiu
Ms. Cheung Yin

RISK MANAGEMENT COMMITTEE

Mr. Lam Sam Ming *(Chairman)*
Ms. Chan Sau Po
Ms. Yao Yuan

COMPANY SECRETARY

Mr. Ho Tai Wai David, *FCPA (Practising), ACIS*

AUTHORISED REPRESENTATIVES

Mr. Lam Sam Ming
Ms. Chan Sau Po

COMPLIANCE OFFICER

Ms. Chan Sau Po

REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3/F, Yip Cheung Centre
10 Fung Yip Street
Chai Wan
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

COMPLIANCE ADVISER

Kingsway Capital Limited
7/F, Tower One, Lippo Centre
89 Queensway
Hong Kong

AUDITOR

Crowe (HK) CPA Limited
9/F Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

COMPANY'S WEBSITE

www.prosperous-printing-group.com.hk

STOCK CODE

8385

Highlights

HIGHLIGHTS

- The revenue of the Group was approximately HK$432.5 million for the year ended 31 December 2018 representing a slight increase from approximately HK$430.7 million for the year ended 31 December 2017. Such increase was mainly due to increase orders from customers for leisure and lifestyle books.

- The gross profit was approximately HK$127.3 million for the year ended 31 December 2018, representing a slight increase as compared to HK$119.1 million for the year ended 31 December 2017 due to increase subcontracting income and decrease consumables and water and electricity in cost of sales.

- The Group recorded an increase of approximately HK$17.8 million in net profit from approximately HK$6.5 million for the year ended 31 December 2017 to approximately HK$24.3 million for the year ended 31 December 2018, which was mainly due to, among other things, listing expenses of approximately HK$15 million was recorded in FY2017, but nil for FY2018.

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

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of the Company, I am pleased to present the annual report of the Company for the year ended 31 December 2018 (the "**Reporting Period**"). Unless otherwise stated, the capitalized terms used in this annual report shall have the same meaning as those used in the prospectus ("**Prospectus**") dated 29 November 2017.

BUSINESS REVIEW

The Group is a provider of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers located in the U.S., U.K., Australia and Europe (excluding U.K.). Our printing products include (i) leisure and lifestyle books (such as photography books, cookbooks and art books); (ii) educational textbooks and learning materials (such as primary, secondary and tertiary level school books); (iii) children's books (such as movie and video game series); and (iv) other paper-related products (such as national maps, leaflets, greeting cards, journals and calendars). We had two production sites with our Hong Kong Factory and Shenzhen Factory, each of which is a self-functioning printing and production arm of our Group. We have signed the lease agreement for the New Shenzhen Factory in light of the Current Shenzhen Factory would need to be surrendered due to the construction of subway nearby. For details, please refer to the announcements dated 20 September 2018 and 25 March 2019 respectively.

FINANCIAL REVIEW

For the year ended 31 December 2018, the revenue of the Group slightly increased by 0.4% to approximately HK$432.5 million from approximately HK$430.7 million for the year ended 31 December 2017. Besides, the Group recorded an increase of approximately HK$17.8 million in net profit from approximately HK$6.5 million for the year ended 31 December 2017 to approximately HK$24.3 million for the year ended 31 December 2018, which was mainly due to, among other things, HK$15 million listing fee recorded in FY2017, but none for FY2018.

OUTLOOK

Looking forward, there are certain risks that the Group will face in further development such as we are subject to challenges from increase of paper cost and technological advancements in publishing and new forms of information dissemination. However, the Group remains cautiously optimistic of the 2019 prospects, and believes that the printing market will be sustainable in a steady and healthy way, and intends to further enhance its presence in the industry and capture market share. To achieve these goals, the Group has developed and will strive to implement the following business strategies: (i) improve equipment and level of automation, (ii) expand customer base and strengthen sales and marketing coverage, and (iii) continue to attract and retain top talent in the industry.

Chairman's Statement

APPRECIATION

I would like to express my gratitude on behalf of the Group to all customers, suppliers, subcontractors, business partners and professional parties for their support to our business development and Listing process. I also take this opportunity to thank for the management and employees of the Group for their contribution and commitment throughout the year.

Mr. Lam Sam Ming
Chairman

Hong Kong, 25 March 2019

Profiles Of Directors And Senior Management

EXECUTIVE DIRECTORS

Mr. Lam Sam Ming (林三明) ("Mr. Lam"), aged 57, was appointed as our Director on 26 April 1993 and was re-designated as our executive Director on 8 September 2016. He is also the chairman and CEO of our Group and a Controlling Shareholder.

Mr. Lam is primarily responsible for the overall management and formulation of business strategy of our Group. He also oversees the overall financial and operation functions of our Group.

Mr. Lam has over 35 years of experience in the printing industry. Mr. Lam began his career in the printing industry when he was registered as an apprentice of The Hong Kong Printers Association in September 1976. Prior to founding our Group, Mr. Lam started his career in the industry when he was first employed as an apprentice by Hing Yip Printing Co. Ltd ("**HYP**"). He spent over 10 years with HYP between January 1983 and March 1993 and his last position at HYP was a manager of the production department.

Mr. Lam established our Group through L & L in December 1992. Since then he has been in charge of the overall business strategies and operation of our Group. Please refer to the section headed "*History, Reorganisation and Corporate Structure — Our Corporate Development*" in the Prospectus for further details. Currently, Mr. Lam assumes various directorships in our Group including those in Printplus, Great Wall and Century Sight. Mr. Lam is the spouse of Ms. Yao who is also our executive Director.

Mr. Lam was the sole director of Topping Shiny Limited ("**Topping Shiny**"), which was incorporated in Hong Kong, prior to its dissolution on 17 March 2017. The principal business of Topping Shiny was the provision of personalised photo albums. Topping Shiny was dissolved by way of deregistration under section 750 of the Companies Ordinance. Under this section, an application for deregistration can only be made if (a) all the members of the company agreed to such deregistration; (b) the company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than 3 months immediately before the application; and (c) the company has no outstanding liabilities. Mr. Lam has not held any current or past directorships in any publicly listed companies whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

Ms. Yao Yuan (姚遠) ("Ms. Yao"), aged 42, was appointed as our Director on 10 March 2016 and was re-designated as our executive Director on 8 September 2016.

Ms. Yao is primarily responsible for overseeing and liaising with local officials in relation to our Group's operations in the PRC. She has over 9 years of experience in the management of printing business and operations in the PRC. Prior to joining our Group, Ms. Yao was the general manager and a majority shareholder of Royal Step (SZ) which was one of our Group's sub-contractors during the Track Record Period and was primarily responsible for the overall management of the company, from 2008 to 2015. Ms. Yao was also the director of Royal Step Printing Company Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party, from 2008 to 2015.

Ms. Yao graduated from the University of Qiqihar (齊齊哈爾大學), the PRC, in July 1999 with a specialised diploma in Mechanical Design and Manufacturing (機械設計及製造). Ms. Yao is the spouse of Mr. Lam who is also our executive Director. Ms. Yao has not held any current or past directorships in any publicly listed companies whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

Ms. Chan Sau Po (陳秀寶) ("Ms. Chan"), aged 45, was appointed as our executive Director and chief financial controller of our Group on 8 September 2016.

Ms. Chan is primarily responsible for corporate financial planning, risk management, investor relations, accounting and treasury management of our Group. Ms. Chan joined our Group in February 1997 and has over 26 years of experience in accounting. Prior to joining our Group, she was employed by Stephen Law & Company, an audit firm, as Audit Senior from September 1991 to February 1997.

Ms. Chan obtained her higher diploma in accountancy from the Hong Kong Polytechnic University in 1999. Ms. Chan has not held any current or past directorships in any publicly listed companies whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

NON-EXECUTIVE DIRECTOR

Mr. Ong Chor Wei (王祖偉) ("Mr. Ong"), aged 49, was appointed as our non-executive Director on 8 September 2016. He has extensive experience in finance and accounting. Mr. Ong was or has been a director of the following listed companies in the three years immediately preceding the date of this annual report:

Period of Services	Name of the listed companies	Position held
November 2012 to October 2016	Hong Wei (Asia) Holdings Company Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8191)	Non-executive director
December 2007 to present	Joyas International Holdings Limited, whose shares are listed on the Singapore Exchange (Stock Code: E9L)	Non-executive director
March 2010 to present	Man Wah Holdings Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 1999)	Non-executive director redesignated to independent non-executive director
April 2010 to present	O-Net Communications (Group) Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 877)	Independent non-executive director

Period of Services	Name of the listed companies	Position held
June 2010 to present	Net Pacific Financial Holdings Limited, whose shares are listed on the Singapore Exchange (Stock Code: 5QY)	Executive director and chief executive officer
March 2014 to present	Zibao Metals Recycling Holdings Plc, whose shares are listed on the London Exchange (Stock Code: ZBO)	Executive finance director
November 2015 to present	Denox Environmental & Technology Holdings Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 1452)	Independent non-executive director
January 2016 to present	Nameson Holdings Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 1982)	Independent non-executive director
Since June 2017 to February 2019	Vico International Holdings Limited, whose shares are listed on the Main Board of Stock Exchange (stock code: 1621)	Non-executive director
Since December 2017 to present	Smart Globe Holdings Limited, whose shares are listed on the GEM of Stock Exchange (stock code: 8485)	Independent non-executive director

Mr. Ong received his bachelor of laws degree from The London School of Economics and Political Science in August 1990. Mr. Ong also obtained via distance learning a master of business administration degree which was jointly awarded by the University of Wales and the University of Manchester, United Kingdom in March 2000. Mr. Ong has been an associate of The Institute of Chartered Accountants in England and Wales and an associate of the Hong Kong Society of Accountants since December 1993 and October 1995 respectively. Save as disclosed above, Mr. Ong has not held any other current or past directorships in any publicly listed companies whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

Profiles Of Directors And Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cheung Yin (張延) ("Ms. Cheung"), aged 53, was appointed as an independent non-executive Director on15 November 2017. She is currently a financial controller of a private group in Hong Kong principally engaged in provision of various financial services. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the CPA Australia.

Ms. Cheung obtained a master's degree in Business Administration from the University of Wales, Newport in the United Kingdom in December 2009 and a Bachelor's degree in Business (Accountancy) from the Charles Sturt University in Australia in April 1991.

Ms. Cheung worked for Coastal Greenland Limited which is listed on the main board of the Stock Exchange as a qualified accountant for the period from April 2004 to June 2007 and senior accounting manager/accounting manager for the period from September 1995 to March 2004. She has over 25 years of experience in accounting, auditing and financial management. Ms. Cheung has not held any current or past directorships in any publicly listed companies whether in Hong Kong or overseas during the three years preceding the date of this annual report.

Mr. Wong Hei Chiu (黃禧超) ("Mr. Wong"), aged 52, was appointed as an independent non-executive Director on 15 November 2017. Mr. Wong has over 27 years of corporate finance and financial management experience in Hong Kong and the PRC. Mr. Wong is currently an executive director, chief financial officer and company secretary of Kingmaker Footwear Holdings Limited, a listed company on the main board of the Stock Exchange (Stock Code: 1170) and an independent non-executive director of Vico International Holdings Limited, whose shares are listed on the Main Board of Stock Exchange (stock code: 1621).

Mr. Wong has worked as the group financial controller and company secretary of Karce International Holdings Company Limited (now known as Jimei International Entertainment Group Limited), a company listed on the main board of the Stock Exchange (Stock Code: 1159) from June 2000 to July 2008; and as the finance director and company secretary of Wah Lee Resources Holdings Limited (now known as Kai Yuan Holdings Limited), a company listed on the main board of the Stock Exchange (Stock Code: 1215) from June 1996 to December 2000. Mr. Wong was also an independent non-executive director of Hong Wei (Asia) Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8191), during the period from December 2013 to June 2016.

Mr. Wong obtained an Executive Master's degree in Business Administration from The Chinese University of Hong Kong in November 2016 and a Bachelor's degree in business administration from Lingnan University, Hong Kong in November 1996. He is a Certified Public Accountant (Practising), a fellow member of The Association of Chartered Certified Accountants in the United Kingdom, a fellow member of The Institute of Chartered Accountants in England and Wales and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Wong is also a fellow member of the Hong Kong Institute of Directors. Save as disclosed above, Mr. Wong has not held any current or past directorships in any publicly listed companies whether in Hong Kong or overseas during the three years preceding the date of this annual report.

Profiles Of Directors And Senior Management

Mr. Leung Vincent Gar-Gene (梁家進) ("Mr. Leung"), aged 33, was appointed as an independent non-executive Director on 15 November 2017. Mr. Leung has over 10 years of experience in auditing, accounting, finance and management. He is currently a director of Gemcoast Limited, a private company in Hong Kong principally engaged in providing financial consultancy services to its clients. He is a member of Chartered Accountants in Australia and New Zealand and is a member of its Hong Kong Committee.

Mr. Leung previously worked for PricewaterhouseCoopers within its financial assurance division in its Sydney and Hong Kong offices from January 2006 to May 2012 and from January 2013 to September 2014 respectively. From June to December 2012, Mr. Leung worked as the group finance manager for Bega Cheese Limited, the shares of which are listed on the Australian Securities Exchange (ASX securities code: BGA).

Mr. Leung obtained a bachelor of commerce degree from The University of New South Wales, Australia in March 2006. Mr. Leung has not held any current or past directorships in any publicly listed companies whether in Hong Kong or overseas during the three years preceding the date of this annual report.

SENIOR MANAGEMENT

Our Board is assisted and supported by our senior management team, which currently comprises four members. The following table sets forth certain information of our senior management:

Name	Age	Date of joining our Group	Position
Ms. Wong Wai Sze (黃慧思)	54	2 August 2010	Vice President — Management
Mr. Hu Min (胡民)	58	3 October 1993	Vice President — Production

Ms. Wong Wai Sze (黃慧思) ("Ms. Wong"), aged 54, is the Vice President — Management of our Group. She is primarily responsible for overseeing our Group's internal audit, information technology affairs, and factory inspections. Ms. Wong has over 26 years of experience in the printing and publishing industry in Hong Kong. She joined our Group in August 2010. Prior to joining our Group, Ms. Wong worked at Regent Publishing Services Limited as a director of operations from August 1991 to March 2010. Ms. Wong has not held any current or past directorships in any publicly listed companies, whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

Mr. Hu Min (胡民) ("Mr. Hu"), aged 58, is the Vice President — Production of our Group. He is primarily responsible for overseeing our Hong Kong Factory and our Shenzhen Factory. Mr. Hu has over 23 years of experience in the printing and publishing industry in Hong Kong. Mr. Hu has not held any current or past directorships in any publicly listed companies, whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

Profiles Of Directors And Senior Management

COMPANY SECRETARY

Mr. Ho Tai Wai David (何大偉) ("Mr. Ho"), aged 59, was appointed as the company secretary of our Company on 8 September 2016. Mr. Ho has been practising as a certified public accountant since January 1994 and has been the principal of David Ho & Co. Certified Public Accountants since July 1998.

Mr. Ho has been a Certified Public Accountant (Practising) in Hong Kong since January 1994 and an associate member of the Hong Kong Institute of Certified Public Accountants from July 1992 and became a fellow member since August 2001. Mr. Ho has also been an associate member of The Hong Kong Institute of Company Secretaries since January 1996 and an associate member of The Institute of Chartered Secretaries and Administrators in United Kingdom since January 1996 (combined with HKICS later on). Mr. Ho has also been an associate member of The Taxation Institute of Hong Kong since August 1998 and a Certified Tax Advisor of The Taxation Institute of Hong Kong since January 2013.

Mr. Ho obtained a Professional Diploma in Business Studies (Banking) awarded by the Hong Kong Polytechnic in November 1983 and a Diploma in Management Studies awarded by the Hong Kong Polytechnic in November 1990. Mr. Ho was awarded a Master of Business Administration by the University of Hong Kong in November 1993 and obtained a Postgraduate Diploma in Accountancy awarded by The Hong Kong Polytechnic University in November 2000. He also obtained an Advanced Diploma in Specialist Taxation awarded by the Hong Kong Institute of Certified Public Accountants in May 2014. Mr. Ho has not held any directorship in any publicly listed companies whether in Hong Kong or overseas, during the three years immediately preceding the date of this annual report.

COMPLIANCE OFFICER

Ms. Chan Sau Po is the compliance officer of our Group. Please refer to the sub-section headed "*Board of Directors — Executive Directors*" above for her biographical details.

Management Discussion And Analysis

BUSINESS REVIEW

We are a provider of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the U.S., U.K., Australia and Europe (excluding U.K.). Our products comprise mainly books and other paper-related products. Paper and ink are our principal raw materials. Our two production sites were the Shenzhen Factory and the Hong Kong Factory. Each of these factories is a self-functioning printing and production arm of our Group, and they share the printing workload allocated by our management. We have signed the lease agreement for the New Shenzhen Factory in light of the Current Shenzhen Factory would need to be surrendered due to the construction of subway nearby. For details, please refer to the announcements dated 20 September 2018 and 25 March 2019 respectively.

Looking forward, there are certain risk that the Group will face in further development such as challenges from increase in paper cost and technological advancements in publishing and new forms of information dissemination. However, we remain cautiously optimistic of the 2019 prospects and believe that the printing market will be sustainable in a steady and healthy way, and intend to continue to build our competitive strengths so as to increase market share and profitability. To achieve our goal, we plan to implement the following business strategies: improving our equipment and the level of automation, expanding customer base and strengthening sales and marketing coverage, and continuing to attract and retain top talent in the industry.

FINANCIAL REVIEW

Revenue

We generate revenue primarily from the provision of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the U.S., U.K., Australia and Europe (excluding U.K.). Our revenue increased by approximately 0.4% from approximately HK$430.7 million for the year ended 31 December 2017, to approximately HK$432.5 million for the year ended 31 December 2018. The increase was primarily due to the increase orders from the customers for leisure and lifestyle books.

Costs of sales

Our cost of sales primarily consists of raw materials and consumables, staff costs, sub-contracting fees, depreciation and water and electricity. Our cost of sales decreased by approximately 2.0% from approximately HK$311.6 million for the year ended 31 December 2017 to approximately HK$305.3 million for the year ended 31 December 2018. The decrease was primarily due to cost of consumables, water and electricity drop.

Gross profit and gross profit margin

Our gross profit was approximately HK$119.1 million and HK$127.3 million for the year ended 31 December 2017 and 2018 respectively. Our gross profit margin was 27.6% and 29.4% respectively. The increase in our gross profit and gross profit margin was primarily due to increase subcontracting income and decrease consumables and water and electricity in cost of sales.

Management Discussion And Analysis

Other income

Other income mainly consists of exchange gain, the profit arising from sale of paper and scrap materials and income received from government subsidies. We recorded other income of approximately HK$10.4 million during the year ended 31 December 2017 to HK$10.6 million during the year ended 31 December 2018. The increase was due to increase in income received from government subsidies.

Distribution costs

Distribution costs primarily consist of courier and freight charges, sales commissions and transportation costs. We recorded distribution cost of approximately HK$28.0 million during the year ended 31 December 2018 representing an increase of 3.6% from HK$27.0 million during the year ended 31 December 2017. The increase was primarily driven by the increase in revenue.

Administrative expenses

Administrative expense primarily consists of staff costs and benefits, directors' emoluments and rental and rates. The administrative expenses increased from HK$65.8 million during the year ended 31 December 2017 to HK$70.9 million during the year ended 31 December 2018, which is mainly due to increase in bad debt written off, depreciation of furniture and fixtures and legal and professional fee.

Other expenses

Other expenses primarily consist of listing expenses. Our other expenses amounted to HK$16.0 million during the year ended 31 December 2017 and become nil during the year ended 31 December 2018, which is mainly due to nil of listing fee record in other expenses during 2018.

Finance costs

We recorded finance costs of HK$8.3 million during the year ended 31 December 2017 and HK$8.2 million during the year ended 31 December 2018. The finance cost remained stable and mainly comprises interest on bank loans and overdrafts.

Income tax

Income tax represents income tax paid or payable by us, at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction our Group operates or domiciles. We had no tax payable in other jurisdiction other than Hong Kong and the PRC during the year ended 31 December 2018. Our operations in Hong Kong are subject to the two-tiered profits tax rate regime, which the first HK$2 million of profits of qualifying entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. Our operations in the PRC are subject to an enterprise income tax rate of 25.0%. Our income tax was approximately HK$5.9 million during the year ended 31 December 2017 and HK$6.4 million during the year ended 31 December 2018.

Profit for the year

As a result of the foregoing, our net profit increased from HK$6.5 million during the year ended 31 December 2017 to HK$24.3 million during the year ended 31 December 2018 which is mainly attributable to recording listing expenses of HK$15 million in FY2017 but nil in FY2018.

Management Discussion And Analysis

Liquidity, Financial Resources and Capital Structure

As at 31 December 2018, the Group had net current assets of approximately HK$64.2 million (31 December 2017: net current assets of HK$45.0 million), of which the cash and cash equivalents were approximately HK$35.4 million. The Group's current ratio is 1.3 (31 December 2017: 1.2).

Total bank borrowings, overdrafts and obligations under finance lease for the Group amounted to HK$185.0 million as at 31 December 2018 (31 December 2017: HK$186.8 million). As at 31 December 2018, bank borrowings of HK$160.5 million are denominated in Hong Kong dollars while bank borrowings of HK$12.2 million were denominated in US Dollars. The effective interest rates are in the range of 3.13%-6.63% per annum. The gearing ratio as at 31 December 2018 was 0.65 (31 December 2017: 0.70) which is calculated on the basis of the Group's total bank loans, overdrafts and obligations under finance lease over the total equity.

As at 31 December 2018, bank loans and overdrafts in the amounts of HK$142.5 million within one year while the amounts of HK$30.2 million are due after one year. For details, please refer to note 21 of the financial statements.

The Group adopts centralized financing and treasury policies in order to ensure the Group funding is utilized efficiently. The Group also regularly monitors its liquidity requirements, its compliance with lending covenants and its relationship with bankers to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The Shares were listed on GEM on 13 December 2017. There has been no change in the capital structure of the Group since then. The capital structure of the Company comprised ordinary shares only.

Foreign Currency Management

We are exposed to currency risk primarily through our sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily U.S. dollars, Renminbi, GBP and JPY.

We have not entered into or transacted any other financial instruments for hedging purpose during the year ended 31 December 2018.

Our Directors will determine by reference to our currency risk management policies, assess our exposure to foreign exchange risk, consider whether or not and to what extent we should enter into similar forward foreign exchange contracts and monitor them in line with our currency risk management policies.

CAPITAL EXPENDITURE

Our capital expenditure primarily comprised of purchase of property, plant and equipment such as machinery for production. Our capital expenditure was funded by internal resources, finance leases and bank borrowings during the year ended 31 December 2018.

Management Discussion And Analysis

The following sets forth our Group's capital expenditure as at the dates indicated:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Property, plant and equipment	252,951	259,265
Intangible assets	755	915
Deposit for acquisition of property, plant and equipment	—	3,533
	253,706	263,713

Contingent Liabilities

The Group is a party to a number of legal proceedings where the Group, as plaintiff, claims for unpaid fees with respect to the Group's printing services, all of which arose during the ordinary course of Group's business. Among such legal proceedings, the Group has been subject to a counterclaim by the Group's former customer in one legal proceeding as at 31 December 2018. Given that Mr. Lam and two former directors of the Company entered into arrangements in 2012 and 2013 to settle the unpaid trade receivable due and the legal advices, the counterclaim is not expected to have a significant impact on the consolidated financial statements. For details, please refer to note 28 to the financial statements.

Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures

There was no significant investment held by the Group nor any material acquisition or disposal of subsidiary, associate and joint venture for the year ended 31 December 2018.

Future plans for material investments or capital assets

As at the date of this report, the Board does not have any plan for material investments or additions of capital assets.

CHARGE ON GROUP ASSETS

As at 31 December 2018, the bank facilities were secured by bank deposits of the Group, financial assets at fair value through profit or loss, the Group's trade receivables, the Group's property, plant and equipment, the assignment of rental proceeds of the Group's properties situated in Hong Kong, benefits of key management insurance policies and corporate guarantees from the Company and certain subsidiaries. These banking facilities amounted to HK$314,781,000 (2017: HK$323,399,000) as at 31 December 2018. These facilities were utilized to the extent of HK$172,713,000 (2017: HK$179,633,000) as at 31 December 2018.

Pledged bank deposits are HK$6.8 million as at 31 December 2018 (31 December 2017: HK$6.8 million).

As at 31 December 2018, the Group's properties and machinery (as included in plant and equipment) with carrying amounts of HK$120,817,000 (2017: HK$125,362,000) and HK$6,263,000 (2017: HK$7,336,000), respectively, were pledged as collateral for the Group's banking facilities.

Management Discussion And Analysis

CAPITAL STRUCTURE

The Group's shares were successfully listed on GEM on 13 December 2017 ("**Listing Date**"). There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report.

COMMITMENTS

The capital commitments outstanding as at 31 December 2018 not provided for in the financial statements were nil (2017: HK$1.7 million) for purchase of plant and machinery.

The total future minimum lease payments under non-cancellable operating leases payable within 1 year amounted to HK$9.8 million as at 31 December 2018 (2017: HK$10.3 million), while the total future minimum lease payments under non-cancellable operating leases payable after 1 year but within 5 years amounted to HK$4.1 million (2017: HK$14.7 million).

Treasury policy

The Group adopted a prudent financial management approach towards its treasury policies and maintained a healthy liquidity position throughout the Reporting Period. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements from time to time.

Employees and remuneration policy

As at 31 December 2018, the Group had 781 employees in total. The staff costs of the Group (including directors' emoluments, and management, administrative and operational staff costs) for the year ended 31 December 2018 were approximately HK$101.8 million (2017: HK$105.5 million).

The Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group. For long-term incentive scheme, the Company adopted a share option scheme on 15 November 2017 and it aims to provide additional incentive to any eligible persons of the Group and to promote the success of the Group's business. For details, please refer to the sub-section headed "Directors' Report — Share Option Scheme" of this report.

Management Discussion And Analysis

Events after the Reporting Period

On 25 March 2019, Prosperous Printing (Shenzhen) Co., Ltd, a wholly-owned subsidiary of the Company, entered into a tenancy agreement ("**Tenancy Agreement**") to lease the premises for its New Shenzhen factory ("**New Shenzhen Factory**") for a term from 1 April 2019 to 30 March 2022. For details, please refer to the announcements dated 20 September 2018 and 25 March 2019 respectively.

ACHIEVEMENT OF BUSINESS OBJECTIVES AS COMPARED WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the achievement of business objectives as set out in the Prospectus with the Group's actual business progress for the period from 1 January 2018 to 31 December 2018 and as at the date of this report is set out below:

Business objectives	Implementation plans	Actual business progress for the year ended 31 December 2018 and as at the date of this annual report
Improve our equipment and the level of automation	Purchase one Printing Press Machine to improve production efficiency and level of automation and to reduce labour costs. Purchase one Digital Printing Machine to enhance our printing capacity for small-to-medium sized orders without the need for printing plate.	Purchased one set of printing press machine, two sets of binding machine and two sets of sewing machine
	Upgrade other software and purchase accessory for machinery from time to time, so as to improve production efficiency.	Purchased AutoCAD, Sonicwall, Adobe System and Photoshop software to improve production efficiency
	Upgrade our computer-to-plate system to improve printing process time.	Upgraded from time to time
Expand customer base and strengthen sales and marketing coverages	Attend London Book Fair, BookExpo America and Frankfurt Book Fair respectively; and promote our brand awareness among international publishers by placing advertisement and/or circulating pamphlets.	Attended London Book Fair, BookExpo America and Frankfurt Book Fair.

Management Discussion And Analysis

Business objectives	Implementation plans	Actual business progress for the year ended 31 December 2018 and as at the date of this annual report
Expand customer base and strengthen sales and marketing coverages	Implement the following measures from time to time: — conduct site visits (through internal sales team or sales representatives) to at least ten potential international publishers and/or print brokers for business development in every calendar year; — conduct site visits (through internal sales team or sales representatives) to at least half of the top twenty customers to obtain after-sales feedback and maintain business contacts in every calendar year; — maintain and enhance our website to include more information of our printing capabilities; and — increase our exposure on the various online search platforms	Upgraded website with more information of our printing capabilities Conducted site visit to potential international publishers publisher, print broker and top ten customers who were based in Hong Kong and scheduled visits to more publisher, and customers Engaged one additional external sales agent for overseas market
Attract and retain top talent in the industry	Recruit two general sales staff to follow up with the potential client target identified by the head of sales team. The candidates shall have at least three years of experience in business development in printing industry.	Recruited two general sales staff to follow up with the potential client target identified by the head of sales team
	Recruit two customer support services staff to provide general customer support services in relation to product quality, delivery schedule etc. The candidates shall have at least three years of experience in printing industry with technical knowledge of printing machinery.	Recruited three customer support services staff to provide general customer support services in relation to product quality, delivery schedule etc.

Management Discussion And Analysis

USE OF PROCEEDS

Based on the Offer Price of HK$0.35 per Offer Share and 200,000,000 Shares offered by the Company, the net proceeds from the Share Offer to be received by the Company, after deducting the underwriting fees and commissions and estimated expenses paid and payable by the Company in relation to the Share Offer, are approximately HK$34.7 million. Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed "Use of Proceeds" in the Prospectus.

An analysis of the utilisation of the net proceeds from the Listing Date up to 31 December 2018 is set out below:

	Planned use of the net proceeds up to 31 December 2018 (HK$ million)	**Actual use of the net proceeds up to 31 December 2018** (HK$ million)
Improve our equipment and the level of automation	**10.5**	**10.5**
Repaying bank loan	**17.0**	**17.0**
Expand customer base and strengthen sales and marketing coverages	**0.7**	**0.7**
Attract and retain top talent *(Note)*	**0.3**	**0.3**
Total:	**28.5**	**28.5**

Note: We planned a total of HK$1.5 million for use in attracting and retaining top talent from time to time for the three years of 2018, 2019 and 2020.

The business objectives, implementation plans and planned use of proceeds were based on the estimation and assumption of future market conditions made by the Group for the purpose of Listing. The actual use of proceeds was based on the Group's business operations and development.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (for the year ended 31 December 2017: Nil). During the year ended 31 December 2018, there was no arrangement under which any Shareholder waived or agreed to waive any dividend.

Corporate Governance Report

INTRODUCTION

Pursuant to Rule 18.44(2) of the GEM Listing Rules, the Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2018.

The Company has made continued efforts to incorporate the key elements of sound corporate governance in its management structures and internal control procedures. The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, and to ensure that affairs are conducted in accordance with applicable laws and regulations.

The Board believes that good and effective corporate governance practices are keys to obtaining and maintaining the trust of the shareholders of the Company (the "**Shareholders**") and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the Shareholders.

CORPORATE GOVERNANCE PRACTICE

The Board is responsible for performing the corporate governance duties in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules, which includes developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the code provision in the CG Code and disclosures in this report.

The Company has complied with the principles and applicable code provisions of the CG Code for the year ended 31 December 2018, except the deviation from CG Code provision A.2.1 set out below.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Lam Sam Ming ("**Mr. Lam**") is the chairman and the chief executive officer of the Company. Mr. Lam has over 35 years of experience in the printing industry. Mr. Lam established our Group through L & L in December 1992. Since then he has been in charge of the overall business strategies and operation of our Group. The Directors are of the view that it would be in the Group's best interest for Mr. Lam to continue performing the two roles in terms of effective management and business development. The Directors further believe that the balance of power and authority is adequately ensured by the operations of the Board, which comprises experienced and high-caliber individuals, with three of them being independent non-executive Directors.

Based on the above factors, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares (the "**Code of Conduct**"). Having made specific enquiries to all Directors, each of them has confirmed that he/she has fully complied with the required standard of dealings set out in the Code of Conduct during the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of our Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

The Directors' responsibilities include inter alias:

- To attend regular Board meetings focusing on business strategy, operational issues and financial performance;
- To approve annual budgets covering strategy, financial and business performance, key risks and opportunities;
- To monitor the quality, timeliness, relevance and reliability of internal and external reporting;
- To consider and approve the consolidated financial statements in interim reports, annual reports and announcements;
- To focus its attention on matters affecting the Company's overall strategic policies, finances and Shareholders;
- To consider dividend policy and dividend amount; and
- To review and monitor the corporate governance policies and practices of the Group to ensure compliance with the legal and regulatory requirements.

The Company has taken out director liability insurance to cover liabilities arising from legal action against the Directors.

Corporate Governance Report

Composition

The composition of the Board during the Reporting Period up to the date of this report is set out as follows.

Executive Directors

Mr. Lam Sam Ming *(Chairman)*
Ms. Yao Yuan
Ms. Chan Sau Po

Non-executive Director

Mr. Ong Chor Wei

Independent non-executive Directors

Ms. Cheung Yin
Mr. Wong Hei Chiu
Mr. Leung Vincent Gar-Gene

Save for the spousal relationship between Mr. Lam and Ms. Yao Yuan, there is no financial, business, family or other material/relevant relationship among members of the Board.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The profile of each Director are set out in the section headed "Profile of Directors and Senior Management" of this report.

With the various experience of the executive Directors and the independent non-executive Directors (the "**INEDs**") and having regard to the nature of the Group's business, the Company recognises the benefits of having a Board with well-balanced experience and qualification to maintain a sustainable business development of the Group in long run. In recognition of the Company's commitment to a well-balanced Board, the nomination committee is entrusted to review the Company's human resources policy and recruitment process to ensure the effectiveness of the policy.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

During the Reporting Period and up to the date of this report, four board meetings were respectively held. The individual attendance record of the Board meetings is set out as follows:

Name of Directors	Number of Board Meetings attended/eligible to attend
Mr. Lam Sam Ming	4/4
Ms. Yao Yuan	4/4
Ms. Chan Sau Po	4/4
Mr. Ong Chor Wei	4/4
Ms. Cheung Yin	4/4
Mr. Wong Hei Chiu	4/4
Mr. Leung Vincent Gar-Gene	4/4

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three INEDs representing at least one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. As such, there is a strong element in the Board to provide independent judgment.

In accordance with code provision A.4.1 of the Code, the Company has entered into a letter of appointment with each of the INEDs for initially a fixed term of two years commencing from the Listing Date and will continue thereafter until terminated by either party giving not less than three months' written notice to the other party.

The Company has received an annual confirmation of independence from each INED pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers the INEDs to remain independent as at the date of this report.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each executive Director has entered into a service agreement with the Company for initially a fixed term of two years commencing from the Listing Date and will continue thereafter until terminated by either party giving not less than three months' written notice to the other party.

The service agreements and/or letters of appointment of the Directors are subject to termination in accordance with their respective terms. They can be renewed in accordance with the articles of association of the Company ("**Articles**") and the applicable GEM Listing Rules.

As required under the Articles, all Directors are subject to election by the Shareholders at the first general meeting after their appointment by the board of directors. At every annual general meeting of the Company at least one-third of the Directors for the time being shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election thereat.

FUNCTIONS OF THE BOARD AND MANAGEMENT

The Board supervises the management of the business and affairs of the Company and ensures that it is managed in the best interests of the Shareholders as a whole while taking into account the interest of other stakeholders. The Board is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. The Board is regularly provided with management report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group in sufficient details.

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the CG Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

DIRECTORS TRAINING AND PROFESSIONAL DEVELOPMENT

To assist the Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. The Directors also participate in continuous professional development programmes such as external seminars and forums organised by qualified professionals, to develop and refresh their knowledge as to the industry and skills in relation to their contribution to the Board.

All the Directors understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills.

During the year ended 31 December 2018, all the Directors participated in a training seminar regarding director's responsibilities and duties by the Company's legal advisers to ensure that he/she has appropriate understanding of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements. Such training seminar was related to corporate governance, connected transactions and directors' continuing obligations.

The Company has maintained the training record in respect of each Director. There are also arrangements in place for providing continuing briefing and professional development to Directors by the Company whenever necessary.

BOARD COMMITTEES

The Board has established four Board committees, namely, the audit committee, the remuneration committee, the nomination committee and the risk management committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with respective written terms of reference. All the Board committees should report to the Board on their decisions and works. The practices, procedures and arrangements of conduct of committee meetings follow in line with, so far as practicable, those of the Board meetings and the respective terms of reference of the committees.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

Audit Committee

The audit committee was established on 15 November 2017 with its written terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The audit committee consists of three members, being Ms. Cheung Yin (Chairman), Mr. Wong Hei Chiu and Mr. Leung Vincent Gar-Gene.

During the Reporting Period and up to the date of this report, four audit committee meetings were held. The individual attendance record of the meetings of the audit committee is set out as follows:

Name of Directors	Number of meetings of the audit committee attended/eligible to attend
Ms. Cheung Yin *(Chairman)*	4/4
Mr. Wong Hei Chiu	4/4
Mr. Leung Vincent Gar-Gene	4/4

During the meeting, the audit committee reviewed (i) the Group's audited consolidated financial statements for the year ended 31 December 2018, with a recommendation to the Board for approval; (ii) the Group's financing and accounting policies; and (iii) the Group's internal control system and risk management functions.

Remuneration Committee

The remuneration committee was established on 15 November 2017 with its written terms of reference in compliance with the CG Code. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration of all Directors and senior management and determine, with delegated responsibilities, the remuneration package of individual Director and senior management.

The remuneration committee consists of three members, being Mr. Wong Hei Chiu (Chairman), Ms. Cheung Yin and Mr. Lam Sam Ming.

During the Reporting Period and as at the date of this report, one remuneration committee meeting was held.

The Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

Nomination Committee

The nomination committee was established on 31 December 2017 with its written terms of reference in compliance with the code provisions of the CG Code. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The nomination committee consists of three members, being Mr. Lam Sam Ming (Chairman), Mr. Wong Hei Chiu and Ms. Cheung Yin.

During the Reporting Period and as at the date of this report, one nomination committee meeting has been held.

Risk Management Committee

The risk management committee on 15 November 2017 with its written terms of reference by reference to the code provisions of the CG Code. The primary duties of the risk management committee are to assist the Board in overseeing the Group's compliance with laws and regulations relevant to its business operations and to review the effectiveness of the Group's regulatory compliance procedures and system.

The risk management committee consists of three members, being Mr. Lam Sam Ming (Chairman), Ms. Chan Sau Po and Ms. Yao Yuan.

During the Reporting Period and as at the date of this report, one risk management committee meeting has been held.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including production, procurement, marketing, finance, human resources, information technology. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with department heads, assess the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

There being no internal audit unit as the Board does not perceive the cost efficiency to set up one at the present scale of operations of the Company, the Board has invested resources to enhance the internal control system and to take active steps in addressing the recommendation of the internal control system review in the management letter from the external auditors during the audit process.

During the year ended 31 December 2018, the Board reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, and considered that such systems are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Corporate Governance Report

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

All Directors acknowledge their responsibilities to prepare the Group's consolidated financial statements for the year ended 31 December 2018 to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and 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 responsibilities of the external auditors about their financial reporting are set out in the independent auditor's report attached to the Company's consolidated financial statements for the year ended 31 December 2018 in this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the Company engaged Crowe (HK) CPA Limited ("**Crowe**") as the external auditor. The fees in respect of audit services provided by Crowe for the year ended 31 December 2018 amounted to HK$1,170,000.

COMPANY SECRETARY

Mr. Ho Tai Wai David, was appointed by the Board as the company secretary of the Company on 8 September 2016. The biographical details of Mr. Ho are set out in the section headed "Profile of Directors and Senior Management" of this report. Mr. Ho is principally responsible for company secretarial matters.

Mr. Ho had confirmed that he had taken no less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules during the year ended 31 December 2018.

SHAREHOLDERS' RIGHT

Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Article 74 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting ("**EGM**"). EGMs shall also be convened on the requisition of one or more Shareholders in accordance with Companies Ordinance (Cap 622, Laws of Hong Kong), which provides (1) the members of a company may request the directors to call a general meeting of the company; (2) the directors are required to call a general meeting if the company has received requests to do so from members of the company representing at least 5% of the total voting rights of all the members having a right to vote at general meetings; (3) a request (a) must state the general nature of the business to be dealt with at the meeting; and (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting; and (4) requests may consist of several documents in like form; and (5) a request (a) may be sent to the company in hard copy form or in electronic form; and (b) must be authenticated by the person or persons making it.

Right to put enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

Procedure for shareholders to put forward proposals at shareholders' meetings

The Companies Ordinance provides that, a company must give notice of a resolution if it has received requests that it do so from: (a) the members of the company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The Companies Ordinance also provides that, the request (a) may be sent to the company in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

All request shall be sent to the principal place of business of the Company in Hong Kong or by e-mail to **rainbow@prosperous-printing.com** for the attention of the Company Secretary.

INVESTOR RELATIONS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities in accordance with GEM Listing Rules.

The Company's annual and interim reports and circulars are printed and sent to all Shareholders.

Moreover, announcements, circulars, publications and press releases of the Company are published on the Company's website (**www.prosperous-printing-group.com.hk**). The Company's website disseminates corporate information and other relevant financial and non-financial information electronically on a timely basis.

The Company acknowledges that general meetings are good communication channel with Shareholders and the Directors and the members of the Board committees are encouraged to attend and answer questions raised by Shareholders at the general meetings.

The Company is committed to promoting and maintaining effective communication with Shareholders and other stakeholders. The Board is committed to ensuring that the Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company so as to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders to engage actively with the Company.

During the Reporting Period, there had been no change in the Company's constitutional documents.

DIRECTORS' REPORT

The Board hereby present the Directors' report and the consolidated financial statements for the year ended 31 December 2018.

LISTING ON GEM

The Company was incorporated as a limited liability company in Hong Kong on 23 December 1992.

The Company became the holding company of the Group upon the completion of the corporate reorganisation (the "**Reorganisation**"), details of which are set out in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

The shares of the Company (the "**Shares**") were listed on the GEM on 13 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the provision of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the U.S., U.K., Australia and Europe (excluding U.K.). The Group's products comprise mainly books and other paper-related products. The two production sites were the Shenzhen Factory and the Hong Kong Factory. Each of these factories is a self-functioning printing and production arm of the Group, and they share the printing workload allocated by the Group's management.

For the development, performance or position of the Group's business, details are set out in the section headed "Chairman's Statement" and the section headed "Management Discussion and Analysis" of this report.

For the principal financial risks and uncertainties facing the Company, details are set out in note 25 to the consolidated financial statements in this report.

(A) Environmental policies and performance

The Board is aware that addressing environmental concerns is an important issue for contributing to the continuous development of society (along with the business activities of the Company).

An environmental policy and manual of procedures have been effective upon Listing which demonstrates the Group's commitment to environmental protection. All staff, subcontractors and suppliers are required to diligently implement the policy and the manual, which will be reviewed regularly in light of experience, feedback from staff, business development, current legislations and regulations.

(B) Compliance with laws and regulations

To the best knowledge and belief of the Directors, the Group's operation in Hong Kong has complied with the applicable laws and regulations in all material respects during the year ended 31 December 2018, and up to the date of this report.

(C) Key relationships with employees, customers and suppliers

The Directors are of the view that the Company has maintained good relationship with its employees, customers, suppliers and bankers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are presented in the consolidated statement of profit or loss and other comprehensive income of this report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group, as extracted from the Prospectus and the consolidated financial statements of the Company for the years ended 31 December 2014, 2015, 2016, 2017 and 2018 are set out in this report.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by our Group during the year ended 31 December 2018 are set out in note 27 to the consolidated financial statements in this report comprising (i) directors and senior management remuneration; and (ii) a partnership ("**Partnership**") in which Mr. Lam and Ms. Yao hold interest, has granted to the Company an exclusive right ("**Licences' Usage Right**") to use the vehicles licences free of change, while our Company has granted to Ms. Yao and Mr. Lam, in their capacities as the partners of the Partnership, a non-exclusive licence to use the names "Prosperous" or "萬里" (whether used individually or together) for the Partnership (the "**Names' Usage Right**"). Our Directors (including our independent non-executive Directors) are of the view that the transactions are on normal commercial terms or better:

- the granting to Ms. Yao and Mr. Lam, in their capacities as the partners of the Partnership, the Names' Usage Right for the sole purpose of holding the Vehicle Licences in return for the granting to our Company Licences' Usage Right is part and parcel of the reciprocal arrangement contemplated;

- Ms. Yao and Mr. Lam, in their capacities as the partners of the Partnership agreed to grant to our Group the Licences' Usage Right without charging any fee and only in consideration of our Company granting them, in their capacities as the partners of the Partnership, the Names' Usage Right; and

- Ms. Yao and Mr. Lam, in their capacities as the partners of the Partnership, have collectively and individually undertaken to our Group that they will not use the names "Prosperous" or "萬里" or other similar names except for holding the Vehicle Licences.

For details, please refer to the section headed "Connected Transactions — Exempt Continuing Connected Transactions" in the Prospectus.

All these transactions are fully exempt from the reporting announcement, independent shareholders' approval, annual review and all other relevant disclosure requirements under Chapter 20 of the GEM Listing Rules.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 24(c) to the consolidated financial statements in this report.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Scheme**") on 15 November 2017, the terms of which are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

A summary of the Scheme is set out below:

(a) Purpose of the Share Option Scheme

The purpose of the Scheme is to provide additional incentive to any eligible persons of the Group and to promote the success of the Group's business.

(b) Participants

The Board may, at its absolute discretion and on such terms as it may think fit, invite any eligible persons to join the Scheme.

(c) Total number of Shares available for issue under the Scheme

The maximum number of Shares in respect of which options may be granted under the Scheme must not in aggregate exceed 10% of all the Shares in issue as at the Listing Date. i.e. a total of 80,000,000 Shares representing 10% of the issued share capital of the Company as at the date of this report.

(d) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of share options in excess of this limit must be separately approved by Shareholders in general meeting.

(e) Period within which the securities must be taken up under an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant.

(f) Minimum period for which an option must be held before exercise

The Board may in its absolute discretion set a minimum period for which an option must be held before an option can be exercised.

(g) Time of acceptance and the amount payable on acceptance of the option

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.

(h) Basis of determining the exercise price

The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(i) Remaining life of the Scheme

The Scheme will remain in force for a period of ten years commencing on 24 September 2016 and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by Shareholders in general meeting.

No share option has been granted or exercised under the Scheme during the year ended 31 December 2018. No share option was outstanding as at 31 December 2018.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the year ended 31 December 2018.

DEBENTURE

No debenture was issued by the Company during the year ended 31 December 2018.

EQUITY-LINKED AGREEMENT

Save as the Scheme, no equity-linked agreement was entered into by the Company or subsisted during the year ended 31 December 2018 which (a) will or may result in the Company issuing Shares; or (b) requires the Company to enter into an agreement that will or may result in the Company issuing Shares.

DONATION

The Group has not made any charitable donation of not less than HK$10,000 during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, each Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate insurance cover in respect of claims and legal actions against the Directors and its officers.

DISCLOSURE OF INTERESTS

(a) Interests and/or short positions of Directors in the Shares, underlying shares or debentures of our Company and its associated corporations

Immediately following completion of the Share Offer (but without taking into account any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), our Directors will have the following interests and/or short positions in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, will be required to be notified to our Company and the Stock Exchange once the Shares are listed:

(i) Interests in our Company

Name of Director	Capacity	Number of Shares *(Note 1)*	Percentage of interest in our Company
Mr. Lam *(Note 2&4)*	Interest of controlled corporation	480,000,000 (L)	60%
Ms. Yao *(Note 3&4)*	Interest of spouse	480,000,000 (L)	60%

Notes:

1. The letter "L" denotes the person's long positions in the Shares.

2. These 480,000,000 Shares are held by First Tech, which is wholly and beneficially owned by Mr. Lam. As such, Mr. Lam is deemed to be interested in these 480,000,000 Shares under the SFO upon the Listing.

3. Ms. Yao is the spouse of Mr. Lam. Under the SFO, Ms. Yao is deemed to be interested in the same number of Shares in which Mr. Lam is interested.

4. The Company was notified by First Tech Inc. ("**First Tech**"), a controlling shareholder (as defined under the GEM Listing Rules) of the Company, that on 12 October 2018, First Tech had executed a charge over its 72,000,000 shares (the "**Charged Shares**") in the issued share capital of the Company in favour of a third party ("**Lender**") as security for a loan granted by the Lender to First Tech. First Tech is wholly owned by Mr. Lam Sam Ming, the chairman and controlling shareholder of the Company. As at the date of this report, the Charged Shares represent 9% of the issued share capital of the Company. For further details, please refer to the announcement of the Company dated 12 October 2018.

Mr. Ong Chor Wei, our non-executive Director, is also a director of a Singapore listed company, Net Pacific Financial Holdings Limited. According to the annual report of Net Pacific Financial Holdings Limited dated 31 March 2017, Mr. Ong Chor Wei is deemed to be interested in the shares held by Quad Sky Limited by virtue of him owning 100% of the equity interest in Head Quator Limited which in turn owns 50% of the equity interest in Quad Sky Limited, which owns approximately 10.22% of the issued share capital of Net Pacific Financial Holdings Limited. Together with the 0.60% of the issued share capital of Net Pacific Financial Holdings Limited directly owned by him, Mr. Ong Chor Wei has an approximately 10.82% deemed interest in the issued share capital of Net Pacific Financial Holdings Limited. Net Pacific Financial Holdings Limited wholly-owns Net Pacific Finance Group Limited.

Net Pacific Finance Group Limited has subscribed for 10,000,000 class A shares in Fine Time. Holders of class A shares in Fine Time do not have voting rights at general meetings of Fine Time but all shareholders of Fine Time share the profits and risks of Fine Time according to their respective total contribution in debt and equity to Fine Time. As Net Pacific Finance Group Limited contributed HK$10,000,000 out of the total debt and equity contribution received by Fine Time of HK$22,000,000, Net Pacific Finance Group Limited holds 45.4% of the economic interest in Fine Time. However, Net Pacific Finance Group Limited does not hold any voting rights in Fine Time and accordingly, Net Pacific Finance Group Limited is not the controlling shareholder of Fine Time.

(ii) Interests in associated corporation of our Company

Name of Director	Name of associated corporation	Capacity	Number of shares held	Percentage of shareholding interest
Mr. Lam	First Tech	Beneficial owner	50,000	100%

Save as disclosed above, immediately following completion of the Share Offer (but without taking into account any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), none of our Directors will have any interests and/or short position in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors.

(b) **Interests and/or short position of substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to our Directors, immediately following the completion of the Share Offer (but without taking into account any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of our Company) will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the total number of issued Shares of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name of substantial shareholder	Capacity	Number of Shares *(Note 1)*	Percentage of interest in our Company
First Tech *(Note 2, 4)*	Beneficial owner	480,000,000 (L)	60%
Fine Time *(Note 3)*	Beneficial owner	120,000,000 (L)	15%

Notes:

1. The letter "L" denotes the person's long positions in the Shares.

2. First Tech is a company incorporated in the BVI which is wholly and beneficially owned by Mr. Lam, an executive Director.

3. For information regarding the shareholding structure of Fine Time, please refer to the sub-section headed "*History, Reorganisation and Corporate Structure — Pre-IPO Investment — Information regarding Fine Time*" in the Prospectus.

4. The Company was notified by First Tech Inc. ("**First Tech**"), a controlling shareholder (as defined under the GEM Listing Rules) of the Company, that on 12 October 2018, First Tech had executed a charge over its 72,000,000 shares (the "**Charged Shares**") in the issued share capital of the Company in favour of a third party ("**Lender**") as security for a loan granted by the Lender to First Tech. First Tech is wholly owned by Mr. Lam Sam Ming, the chairman and controlling shareholder of the Company. As at the date of this report, the Charged Shares represent 9% of the issued share capital of the Company. For further details, please refer to the announcement of the Company dated 12 October 2018.

Save as disclosed above, so far as is known to our Directors, immediately following completion of the Share Offer (but without taking into account any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), there are no other person (not being a Director or chief executive of our Company) who will have an interest or a short position in the Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the voting power at general meetings or any other members of our Group.

Directors' Report

DIRECTORS AND THEIR SERVICE AGREEMENTS

The composition of the Board during the Reporting Period up to the date of this report is set out as follows.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Group or any other body corporate.

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Sam Ming *(Chairman)*
Ms. Yao Yuan
Ms. Chan Sau Po

Non-executive Director

Mr. Ong Chor Wei

Independent non-executive Directors

Ms. Cheung Yin
Mr. Wong Hei Chiu
Mr. Leung Vincent Gar-Gene

Each Director has entered into a service agreement or letter of appointment with the Company for initially a fixed term of two years commencing from the Listing Date and will continue thereafter until terminated by either party giving not less than three months' written notice to the other party.

Biography details of the Directors are set out in the section headed "Profile of Directors and Senior Management" of this report.

The Company has received an annual confirmation of independence from each INED pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers the INEDs to remain independent as at the date of this report.

None of the Directors has entered into any service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

Directors' Report

EMOLUMENT OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emolument of the Directors and the five highest paid individuals of the Group are set out in notes 8 and 9 to the consolidated financial statements in this report.

EMOLUMENT POLICY

The remuneration committee of the Board will make recommendations on the remuneration of the Directors and senior management and to recommend members of the Board and determine, with delegated responsibilities, the remuneration package of individual Director and senior management. The remuneration committee regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as the transactions set out in note 27 to the consolidated financial statements in this report, the Group has not entered into any transaction, arrangement or contract that is significant in relation to the Group's business to which any of member of the Group was a party and in which a Director or a connected entity of that Director had, directly or indirectly, a material interest.

Saved as disclosed, there was no contract of significance between the Company or one of its subsidiaries on the one hand, and a controlling shareholder or any of its subsidiaries on the other, subsisting during or at the end of the year ended 31 December 2018.

Saved as disclosed, there was also no other contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries during or at the end of the same period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Other than members of the Group, none of the Directors or their respective close associates (as defined in the GEM Listing Rules) has interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

INTEREST OF CONTROLLING SHAREHOLDERS

Save as disclosed in this report, the Directors are not aware of any business or interest of the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2018.

Directors' Report

NON-COMPETITION UNDERTAKING

Each of Controlling Shareholders (together the "**Covenantors**") entered into a deed of non-competition in favour of the Group (the "**Deed of Non-competition**") on 15 November 2017, details of which are set out in the section headed "Relationship with Our Controlling Shareholders — Deed of non-competition" in the Prospectus.

The Company received from each of the Covenantors an annual confirmation on their respective compliance of the non-competition undertaking under the Deed of Non-competition. The INEDs have reviewed the compliance of such undertaking and evaluated the effective implementation of the Deed of Non-competition, and they were satisfied with the Covenantors' compliance with their undertaking for the year ended 31 December 2018.

MANAGEMENT CONTRACT

During the year ended 31 December 2018, neither the Company nor its subsidiaries has entered into a contract by which (a) a person undertakes the management and administration of the whole or any substantial part of the business of the Company; and (b) the contract is not a contract of service with any Director or any person engaged in the full-time employment of the Company.

MAJOR CUSTOMERS

For the year ended 31 December 2018, the Group's five largest customers accounted for approximately 57.7% of the total revenue of the Group and the largest customer of the Group accounted for approximately 24.3% of the total revenue.

To the best of the knowledge of the Directors, none of the Directors or any of their respective close associates, or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers.

MAJOR SUPPLIERS

For the year ended 31 December 2018, the Group's five largest suppliers, two of which is our sub-contractor, accounted for approximately 26.5% of the cost of sales of the Group and the largest supplier of the Group accounted for approximately 7.4% of the cost of sales.

To the best of the knowledge of the Directors, none of the Directors or any of their respective close associates, or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

CORPORATE GOVERNANCE

The corporate governance report of the Company for the year ended 31 December 2018 is set out of this report.

Directors' Report

INTERESTS OF COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Kingsway Capital Limited ("**Kingsway**"), as at 31 December 2018, save as (1) Kingsway's participation as the sole sponsor in relation to the Listing; (2) Kingsway's affiliated company, Kingsway Financial Services Group Limited as one of the joint bookrunners and joint lead managers in relation to the Listing; and (3) the compliance adviser agreement entered into between the Company and Kingsway Capital Limited, neither Kingsway nor its directors, employees or associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the public float of the Company's issued securities is sufficient with at least 25% held by the public.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution to its Shareholders, calculated in accordance with the laws of Hong Kong, amounted to approximately HK$95.8 million.

AUDITOR

The consolidated financial statements of the Company for the years ended 31 December 2018 and 2017 were audited by Crowe. Crowe will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting (the "**AGM**") of the Company. A resolution for their re-appointment as the auditor of the Company will be proposed at the AGM.

The financial statements of the Company for the year ended 31 December 2016 were audited by David Ho & Company.

EVENTS AFTER THE REPORTING PERIOD

On 25 March 2019, Prosperous Printing (Shenzhen) Co., Ltd (SZ), a wholly-owned subsidiary of the Company, entered into a tenancy agreement ("**Tenancy Agreement**") to lease the premises for its New Shenzhen factory ("**New Shenzhen Factory**") for a term from 1 April 2019 to 30 March 2022. For details, please refer to the announcements dated 20 September 2018 and 25 March 2019 respectively.

Mr. Lam Sam Ming
Chairman

Hong Kong, 25 March 2019

Environmental, Social And Governance Report

INTRODUCTION

Prosperous Printing Company Limited (the "**Company**") and its subsidiaries (the "**Group**") are committed to promoting sustainable development and social responsibility, which is important to create long-term value for the Group's shareholders, employees and other stakeholders. The Group strives to provide employees with a safe and healthy working environment as well as talent training and development. This report covers environmental, social and governance matters of the Group for the year commencing 1 January 2018 to 31 December 2018 ("**FY2018**") and information comparative figures of the previous year ended 31 December 2017 ("**FY2017**") have been included for comparison purpose.

The Group is a provider of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers mainly located in the U.S., U.K., Australia and Europe (excluding U.K.). The Group's products comprise mainly books and other paper-related products. Paper and ink are the principal raw materials.

This environmental, social and governance report has been prepared in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 20 to Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited ("**GEM Listing Rules**").

This report provides information related to the business activities of the production sites and warehouse facilities directly controlled by the Group. Data from our customers or suppliers are not included as such data is difficult to verify with available resources.

We believe that understanding the views of our stakeholders lays a solid foundation to the long-term growth and success of the Group. We develop multiple channels to a broad spectrum of stakeholders in order to provide them with the opportunity to express their views on our sustainability performance and future strategies. To reinforce mutual trust and respect, we are committed to maintaining enduring communication channels, both formally and informally, with stakeholders to enable us to better shape our business strategies in order to respond to their needs and expectations, anticipate risks and strengthen key relationships. We have identified employees, customers, suppliers, business partners, banks, shareholders, government and the community at large as our key stakeholder groups. The information collected through different communication processes serves as an underlying basis for the structure of this ESG Report.

Environmental, Social And Governance Report

1. Environmental Protection Strategy

The Group is environmental conscious and strives to operate its production process and facilities that maximizing our resources efficiently, improving productivity while minimizing the unfavorable impacts, seeking to contribute to the improvement of ecological environment and sustainable development. The Group has to ensure that our operations are compliant with all the relevant environmental rules and regulations.

1.1 Environmental Rules and Regulations

Our printing operations are subject to various environmental rules and regulations, such as, PRC Environmental Protection Law (《中華人民共和國環境保護法》), Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) and Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong).

The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gases ("**GHG**") emissions, discharges into water and land, generation of hazardous and non-hazardous waste during FY2018.

1.2 Green Production Objective

The Group has to measure, monitor and control the level of emissions of exhaust gases, GHG and generation of hazardous wastes during production and to look for possible improvements for reducing the level of wastes generated from production.

1.2.1 Emissions Measurements

The Group's emission of exhaust and GHG gases is primarily from purchased electricity and fuel used in production, factories and offices. There are other indirect emissions generated, for example, purchased paper, purchased printing plates, paper waste and business travelling.

During the offset printing process, chemically tainted water is released through washing of the printing plates in the prepress production and the cleaning of ink rollers from the printing presses. In the ink application process, there are certain Volatile Organic Compounds ("**VOC**") emissions such as benzene, toluene and p-xylene. Though the emissions are considered insignificant, our Hong Kong and Shenzhen factory installed the environmental air filters to minimize the VOC emission. Sewage water is generated in our business operation mainly for cleaning, personal consumption of employees and usage in staff quarters.

During FY2018, the Group has engaged external qualified testing companies for collecting and analyzing the emissions of exhaust and GHG gases, sewage water generated from our Shenzhen factory where the Group's main production facilities are located.

Direct emissions of GHG are from production, usage of motor and electrical vehicles, indirect emission is due to electricity consumption. Both emissions have been measured and analyzed in FY 2018 and compared with FY2017 as follows:

GHG emission	FY2018 tCO_2e	FY2017 tCO_2e
Direct	85.89	127.63
Indirect	10,655.23	11,269.79
Total	10,741.12	11,397.42
Shenzhen factory production output in ton	18,613.83	21,594.02

The total quantity of emission of GHG decreased from 11,397.42 ton in FY2017 to 10,741.12 ton in FY2018 mainly due to the reduced usage of electricity under indirect emission. The GHG emission per unit of production output increased slightly from 0.53 ton in FY2017 to 0.57 ton in FY2018.

Testing results below on the exhaust gases emitted from our Shenzhen factory in FY2018 and FY2017 confirmed that the density of harmful content has been very low and in full compliance with the required environmental and safety standards in Shenzhen City.

	FY2018		FY2017	
	Density (mg/m^3)	Speed (kg/h)	Density (mg/m^3)	Speed (kg/h)
Benzene 苯	0.0277	0.000246	0.0232	0.000081
Toluene 甲苯	2.4208	0.020482	0.2160	0.001255
P-Xylene 二甲苯	2.1963	0.018580	0.4192	0.002443
Other VOC	7.8717	0.066610	13.5417	0.092225

The contents of the sewage water generated from our Shenzhen factory have been collected four times during FY2018 the same as in FY2017, that confirmed the full compliance with the required environmental and safety standards in Shenzhen City and showing improvement results.

Testing results	FY2018	FY2017
pH value	7.3675	7.4325
Suspended matter, mg/L	5.5	10
Chemical oxygen demand, mg/L	13.25	54.5
Biochemical oxygen demand 5 days, mg/L	3.9	11.2
Ammonia nitrogen, mg/L	0.11325	0.369
Chromaticity, times	2	7

1.2.2 Materials Recycling

The Group aims to optimize the use of materials resources throughout the production process and increasing the recycling use of materials for minimizing wastage. In FY2018, total paper materials used in production were 22,837.90 ton decreased by 15.06% from 26,888.64 ton in FY2017.

Papers used in the offices are to be printed and written on both sides, documents recorded in soft copy format and facilitate transmission through email is encouraged for reducing the usage of papers.

In order to enhance the efficiency and tidiness for our collection of scrap paper materials from production, we have set up centralized mechanical equipment for compression and bundling of scrap papers in our Shenzhen and Hong Kong factories for expediting the process and increase the recycling rate. Other recyclable materials such as cardboard, used printing plates and waste metals are separately identified and recycled. We are working closely with our printing ink suppliers by returning their plastic ink containers for reuse and reduce wastage.

The collection of waste materials in our Shenzhen factory during FY2018 when compared with FY2017 is as follows:

	FY2018	FY2017	Changes	
(in kg)	Quantity	Quantity	Quantity	%
Scrap papers	3,079,054	3,080,770	(1,716)	(0.06)
Used printing plates	114,663	138,800	(24,137)	(17.39)
Waste metals	5,830	6,460	(630)	(9.75)
Sub-total and recycled	3,199,547	3,226,030	(26,483)	(0.82)
Hazardous wastes	10,230	20,415	(10,185)	(49.89)
Total	3,209,777	3,246,445	(36,668)	(1.13)

All scrap papers, used printing plates and waste metals are recycled and have been disposed to authorized collectors handling recycle of the materials. During FY2018 except for the hazardous wastes, a total of 3,199.55 ton of waste materials, decreased from 3,226.03 ton in FY2017, has been recycled, representing a higher 99.68% compared with 99.37% in FY2017 of the waste materials being recycled.

During FY2018, the total hazardous wastes generated from our Shenzhen factory was equivalent to 0.05% per kg unit of production when compared with 0.09% in FY2017 while the amount of hazardous waste generated from Hong Kong production was minimal at less than 0.01% for both FY2018 and FY2017.

The non-hazardous wastes generated by the Group during FY2018 that were recycled was equivalent to 0.16 per kg unit of production when compared with 0.14 in FY2017, of which the recycle rate of our Shenzhen factory was equivalent to 0.17 per kg unit of production in FY2018 when compared with 0.15 in FY2017, and in Hong Kong, the recycle rate was 0.04 in FY2018 compared with less than 0.01 in FY2017.

1.2.3 Hazardous Waste Management

For the disposal of hazardous wastes generated from production, we strictly follow the Management of Solid Waste Disposal Regulation issued by the Central Government of The People's Republic of China and engaged independent authorized waste collector for disposal of the hazardous wastes. Our administration department maintains proper records on the amount of hazardous wastes disposed each year.

Our employees are required to comply with the following practices and procedures for the proper handling of hazardous wastes:

- Employees who are required to handle hazardous waste must attended the required training before assigned to their positions

- Clear instructions and protection equipment are provided to employees handling the wastes

- Hazardous wastes are stored in rigid containers to avoid spillage and at designated storage area

During FY2018, a total of 10.23 ton of hazardous wastes was produced and reduced by 49.89% from 20.42 ton in FY2017 indicated our decision to reduce the generation of hazardous wastes. Majority of the hazardous waste was attributable to the residues generated from treatment of sewage water.

1.2.4 Shipment of Products

The Group encourages our customers to consolidate the shipment volumes and orders if applicable for reducing the numbers of individual shipment that can minimize the times of sea voyages on the environmental impact. The Group is using recyclable pallets for loading products to containers.

1.2.5 Environmental Monitoring Costs

The Group has incurred recurrent operating costs for monitoring and management of our internal control system on environmental protection, including engagement of qualified companies to conduct testing on the emissions of exhaust gases and sewage water during production processes to ensure that we are in full compliance with all the environmental and safety laws and regulations.

With our commitment to environmental protection, during FY2018, total direct costs incurred on environmental protection in the treatment of sewage water, different types of testing, installation of exhaust tubing for exhaust gases, cleaning of air ventilation facilities for improving air flow efficiency in our Shenzhen factory increased by 10.93% to HK$604,998.

1.2.6 Management Approach for FY2019

(i) Reduce energy consumption and carbon emissions:

- To control GHG emission per unit of production output below 0.60

(ii) Recycle materials to minimize waste and conserve resources:

- To continue promoting the use of digital format data for saving document printing
- To continue monitoring the efficient collection of scrap paper materials for recycling

1.3 High Performance Production Objective

The Group is to achieve high performance production using the necessary materials and avoid using excessive resources causing wastage and environmental unfriendly.

1.3.1 Monitoring Resources Usage

The principal raw material used for production is paper and the close monitoring on paper usage in relation to our level of production to ensure no excessive usage.

The Group's usage of paper, printing plate, ink, electricity and water during FY2018 and compared with FY2017 is as follows:

	FY2018 Amount (HK$)	FY2017 Amount (HK$)	Change Amount (HK$)	%
Paper	98,891,072	109,792,151	(10,901,079)	(9.93)
Printing plate	6,965,490	7,500,661	(535,171)	(7.13)
Printing ink	5,321,407	5,130,011	191,396	3.73
Electricity charges	11,023,285	11,970,999	(947,713.84)	(7.92)
Water charges	613,518	607,715	5,803	0.95
Total production output in (kg)	19,857,749	22,805,979	(2,948,230)	(12.93)
Average number of employee	849	932	(83)	(8.91)

The direct energy consumption in respect of electricity charges during FY2018 for the Group was HKD0.56 per kg of production output compared with HKD0.53 in FY2017 of which the consumption rate for our Shenzhen factory was HKD0.52 per kg of production output in FY2018 compared with HKD0.49 in FY2017, and in Hong Kong, the consumption rate was HKD1.10 in FY2018 compared with HKD1.14 in FY2017.

The indirect water consumption during FY2018 for the Group was stable at HKD0.03 per kg of production output the same level as in FY2017, of which the consumption rate for our Shenzhen factory was stable at HKD0.03 per kg of production output both in FY2018 and FY2017, and in Hong Kong, the consumption rate was HKD0.01 for both FY2018 and FY2017.

1.3.2 Production Management

We have been implementing production automation and efficient production management to maximize our resources efficiency and improve our productivity without compromising the quality of our product. Our Shenzhen factory is certified with Recognition of Excellence as a G7 Master Qualified Facility and also certified as Master Facility Colorspace that our quality on printing and the production facility satisfies globe recognized industry standard. In FY2018, our average production output per worker decreased by 4.41% over the previous year.

1.3.3 Production Automation

We have been using our self-developed direct refill system for siphoning the ink directly from the centralized tanks to the individual printing press. This automatic refill system ensures the continuous supply of ink to the printing presses without stoppage, thus enhancing production efficiency and at the same time, overcame the wastage of ink and time when manually transferred ink from containers to the printing presses.

The Group's computer-to-plate (CTP) machinery and systems have eliminated the requirement for the production of ozalids that saved the usage of special papers and chemicals for producing the ozalids. The blueprints of books and paper products can be produced efficiently by the CTP system upon receiving the digital information directly from customers for download that increase accuracy, shorten lead time for checking and approval by customers.

The Group has been working with an external software company for developing our in-house designed automatic marking system for tracking the movements of work-in-progress (WIP) under different stages in production. Information and the required processing procedures of a production order will be first input to the software system. Information is then updated to the system after the completion of one production process and barcodes will be printed out for attaching to the WIP before passing on to the next department for handling. A barcode reading machine installed in the next department will record the information on the incoming WIP and similarly after completion, the department is required to update the information in the system and print out the revised barcodes for attaching to the WIP. This system can provide real time tracking information on the current status of all the production orders.

In addition, we have installed digital printing machines both in Hong Kong and the Shenzhen factory for meeting customers' orders under quick turnaround time and use less electricity and ink when compared with the traditional offset printing presses.

The aforementioned automated machineries and system have significantly improved our production efficiency, required less intensive labor and made significant improvements in the quality and consistency of our production.

1.3.4 Use of Water and Electricity

The Group is committed to conserving the use of water as a valuable natural resource. We only use water supplied from municipal sources in our Shenzhen factory and do not have any on-site wells. Although water is not directly utilized for production, the Group has engaged external qualified testing companies to conduct testing on the sewage water collected from our Shenzhen factory to ensure our compliance with the required environmental and safety standards. Sprinkler is used on hose for watering plants in the Shenzhen factory.

Sewage water is mainly generated from cleaning and the employees' living activities in Shenzhen factory. Sewage water is collected in a tank for purification treatment before being channeled for flushing the washrooms. We have put up notices at the eye-catching areas to increase the awareness of our employees on conserving water. We have managed to reduce total water consumption in FY2018 by 0.95%.

The Group has been using more energy efficient LED lightings for energy savings and notices have been placed at the entrance areas for reminding employees to switch off all lightings, air-conditioning system and electrical appliances during lunch break and after office hour before leaving. We have been using more telephone and video conferencing for conducting meetings between Hong Kong and Shenzhen offices and with customers for saving the travelling and time required, making contribution to environmental saving.

1.3.5 Management Approach for FY2019

(i) Enhance the barcode tracking system, implement suitable automation in production, strengthen the operational management, improve production efficiency and productivity:

- To increase production output per worker by 0.2% compared with FY 2018.
- To maintain the electricity usage in the level of production output as FY2018.

(ii) Monitor water consumption:

- To promote water saving campaigns throughout the Group
- To reduce total water consumption by 0.5% over FY2018

1.4 Environmental Friendly Materials Objective

The Group aims to apply more environmental friendly materials in our production and reducing the usage of materials that are very difficult to recycle.

1.4.1 Paper

We encourage our customers to use papers coming from sustainable forestry with Forest Stewardship Council "FSC" label endorsement. We have obtained the FSC Chain-of Custody certification for our usage of the FSC label on our products when certain criteria are met. Product with FSC label affixed provides a confirmation to our customer and the end consumer that the product is originated from well-managed forests, controlled sources, reclaimed materials or a mixture of these.

During FY2018, the quantity of FSC papers used in our production was 1,239.51 tons compared with 1,499.76 tons used in FY2017 mainly attributable to the customers' orders were cost sensitive.

1.4.2 Soybean Oil Based Ink

We are using soybean oil based ink in our printing presses for all production. Compared to the traditional solvent base ink, the soybean oil based ink is environmental friendly that substantially reduces the emission of VOC to the atmosphere both in the product itself and during production, which also improves the air quality at our workplace. The Group will continue to use soybean oil based ink going forward.

1.4.3 Plastic Material

With the growing awareness of the difficulty in recycling plastic materials, we are encouraging our employees to reduce the usage of single use plastic items during production and daily activities, such as plastic holders, utensils, cups, bags, etc. Plastic film has been used in the bulk packaging of finished products when loading on pallets and we are looking for alternative materials and method for replacing the plastic film if possible.

1.4.4 Management Approach for FY2019

(i) Usage of environmental friendly materials in our production when applicable and to encourage our customers and employees to be environmental friendly and give more consideration on using sustainable resources.

- To look for environmental friendly material for replacing the current plastic film for bulk packaging of finished products when loading on pallets

- To encourage our customers to use papers with FSC label in their products

2. Employment Strategy

The Group is to maintain good relationship with employees who are valuable assets, encouraging the employees for personal development, providing the employees with a safe and pleasant working environment.

Good relationship with the employees can foster their job satisfaction, encourage increasing productivity and with a lower turnover rate.

The demographics of the Group's employees at the year-end date of FY2018 when compared with FY2017 are as follows:

	FY2018	FY2017	Changes	
	Number	Number	Number	%
Male	**515**	568	(53)	(9.33)
Female	**266**	292	(26)	(8.90)
Total number of employees	**781**	860	(79)	(9.19)
Average number of employees	**849**	932	(83)	(8.91)
Employees working for				
— Over 5 years	**458**	497	(39)	(7.85)

2.1 Competitive Remuneration Objective

The Group considers offering competitive remuneration package is necessary for the attraction and retention of employees.

2.1.1 Compensation and Benefits

All the employees of the Group are required to enter into employment contracts when enrollment for clearly stating out the terms and conditions, salaries and allowances, benefits and job duties of the employees. A copy of the employee handbook is also provided to each employee in the Shenzhen factory when he first joined.

The Group complies with all the Labour Law of the PRC and Hong Kong, the Implementing Regulations of the Labour Contract Law of the PRC, Regulations on Paid Annual Leave for Employees, PRC Social Insurance Law and Employment Ordinance in Hong Kong together with other relevant laws and regulations.

We provide social insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to our employees in PRC according to PRC Social Insurance Law and MPF according to the Mandatory Provident Scheme Ordinance in Hong Kong. The Group also offers additional employer's voluntary contributions to employees in Hong Kong who have completed four years of continuous employment.

The Group adopts an 8-hour working system and voluntary overtime. Overtime is limited to be within statutory limit to protect employees' health. In addition, the Group prohibits employee to work on a technical task before the relevant employee has received adequate training to safeguard employees' safety.

The Human Resources Department is monitoring the salaries and remuneration packages offering to employees both in Hong Kong and PRC that the Group's remuneration packages are competitive when compared with other employers offering similar job duties and working conditions.

Excluding the directors' remuneration, the total employees' costs incurred by the Group for FY2018 when compared with FY2017 are as follows:

	FY2018 Amount (HK$)	FY2017 Amount (HK$)	**Changes Amount (HK$)**	**%**
Salaries and allowances	**96,344,083.76**	95,930,819.08	413,264.68	0.43
Social and retirement benefits	**5,120,601.17**	5,013,999.30	106,601.87	2.13
Total	**101,464,684.93**	100,944,818.38	519,866.55	0.52

2.1.2 Employees Turnover

Majority of the Group's employees is working in the Shenzhen factory, and due to the general high mobility of employees in Shenzhen City, the turnover rate of new employees who have been employed for less than two years, has been high and in line with general market conditions. The continuous economic development in Shenzhen City has offered various different kinds of job opportunities that downplayed the attraction for people working in the industrial sector, especially for the younger generation.

Out of the resigned employees during FY2018, 89.18% were employed for less than 2 years when compared with 90.46% in FY2017.

Number of employees who resigned in FY2018 and FY2017:

	FY2018	FY2017	Changes	%
Less than 2 years of employment	775	626	149	23.80
Employees with over 2 years of employment	94	66	28	42.42
Total employees resigned	869	692	177	25.58

In order to attract employees continue working for the Group, competitive remuneration package, good relationship with the employees with promotion prospects are continue to be applicable. The Group continues to pay high regard to the employees who have serviced the Group over the past years and contribute to the Group's success, 49 awards were given to employees of the Group who have been employed for over 10 years during the annual dinner in February 2019 as our token of appreciation for their contributions and hard work.

2.1.3 Employee Communication

Open communications is an important element in achieving effective workplace management. Proper communication with the employees is very important for the employees to understand the business strategies and future development of the Group.

We encourage employees to voice their opinions through various communication channels at all levels. We provide suggestion boxes, website, internal newsletters and communication meetings where employees can express their concerns and suggestions. Both the telephone numbers and email addresses of the Shenzhen Factory Manager and the Chief Representative of the Labour Union are available for all the employees of our Shenzhen factory. Information, opinions and suggestions gathered from the employees are to be followed up by our Human Resources Department for discussion with senior management.

The Group encourages the employees to discuss any issues and problems they identified directly with their supervisors. The Group has the whistle-blowing policy whereby an employee can inform the Chairman of the Audit Committee of the Group of any suspected wrong doings and other irregularities that they have identified.

2.1.4 Management Approach for FY2019

(i) Enhance the good relationship with employees through various communication channels and employees' activities:

- To continue encouraging open communications at all levels of the Group and facilitates employees to give their opinions through various communication channels

- To continue providing different types of activities for the employees
- To maintain the turnover rate of employees with over 2 years of employment at or below 10%
- To maintain the same number of employees with over 5 years of employment with the Group

2.2 Personal Development and Advancement Objective

The Group considers personal development of employee is important for future advancement in career. Learning of new skills and knowledge is necessary for equipping the employee to handle additional job duties not only in his own specialty area, but also in different duty and supervisory function.

2.2.1 Training programs

The Human Resources Department encourages our employees to develop and advance their careers in the Group and organized training courses for the employees. Each new employee of our Shenzhen factory is required to attend 1–1/2 hours training on employees' regulations and information on counter terrorist, an additional 1–1/2 hours training on the safety information and precautions.

We have provided internal trainings on industrial safety and fire drill for the employees of our Shenzhen factory to stay alert of fire accident and way of evacuation. Our employees have also participated in outside training courses organized by the Shenzhen City local community on production safety, road safety and prevention on frauds.

	FY2018		FY2017	
	Person-times	**Total training hours**	Person-times	Total training hours
Orientation programs	**1,560**	**2,340**	1,296	1,944
Fire and chemical leakage drills	**1,500**	**1,500**	813	813
On-the-job trainings	**124**	**171**	1,889	1,889
Outside trainings	**292**	**338**	333	333
Total	**3,476**	**4,349**	4,331	4,979

The total number of times employees participated in the training courses decreased from 4,331 in FY2017 to 3,476 in FY2018 and total hours for attending training courses decreased from 4,979 hours to 4,349 hours mainly due to the special one time training in FY2017 for the new rules and regulations of Shenzhen Customs on the Authorized Economic Operation ("**AEO**") standards for total 1,774 participants and 1,774 training hours which did not repeat in FY2018. Excluding the one-time training on AEO, total training hours increased from 3,205 hours in FY2017 to 4,349 hours in FY2018. Average total training hours per employee in FY2018 was 5.1 hours when compared with 5.3 hours in FY2017.

We encourage our employees to explore their potential talents and offer them opportunities to learn technical and management skills to prepare themselves for taking up leadership roles when ready in supporting our continuous growth.

2.2.2 Management Approach for FY2019

(i) Foster a continuous learning environment and encourage employees to develop and advance their careers in the Group:

- To meet the training needs of employees, provide training courses for new information and career development

- To maintain the average training hours per employee at or above 5 hours each year

2.3 Respect of Labor and Human Rights Objective

The Group is committed to respect the labor and human rights of all our employees through the following principles as stated in our human resources management policies:

Freely Chosen Employment — We do not use forced or prison labor. We ensure that the terms of employment are voluntary. Our employees work at The Group of their own free will and are free to resign upon giving reasonable notice under the employment contract. We do not require employees to lodge deposits or hand over passports or work permits as a condition of employment.

No Child Labor — We comply with all appropriate local and international regulations in relation to the restrictions on the employment of child labor.

Freedom of Association — We allow our employees have the freedom of association to join any organizations or professional bodies of their own choices.

Anti-slavery — We are committed to respect and treat our employees with dignity. We do not tolerate any forced labor and we do not accept any physical and financial punishment for employee wrongdoing.

Benefits and Wages — We ensure that the remuneration and benefits for our employees comply with or exceed the minimum legal requirements. We maintain proper communication with our employees and understand their needs and conduct regular communication meetings to have direct dialogs with our employees.

Overtime policy — Overtime is voluntary and employees are compensated for overtime in accordance with the laws.

Equal Opportunity and No Discrimination Policy — We ensure that our hiring, compensation, training, promotion, termination and retirement policies and practices do not discriminate on the grounds of age, sex, marital status, race, religion, disability or any other non-job related factors. Remuneration is determined with reference to performance, qualifications and experience.

Harassment and Abuse — We do not tolerate any physical, sexual, psychological or verbal harassment or abuse towards our employees.

Any issues or enquiries raised by our employees through different communication channels will be handled and investigated promptly and confidentially by the Human Resources Department, followed by disciplinary measures if necessary.

No case of misconduct was reported during FY2018 and we are committed to upholding the professional ethical conduct and the highest level of integrity of our employees.

2.3.1 Management Approach for FY2019

(i) Respect the labor and human rights of all the employees with clearly defined human resources management policies:

- To continue the Group's human resources management policies in compliance with the regulatory requirements

2.4 Healthy Workplace for Employees Objective

The Group aims to provide a pleasant, supportive and healthy workplace for our employees, and to foster a caring working environment. We recognized that having a motivated workforce is important in the Company's efficient operations.

2.4.1 Compliance with Safety Standards

Our Shenzhen factory is certified with Work Safety Standardization by the State Administration of Work Safety in PRC confirming that our facilities operate with the required standards on social responsibility, health and safety. According to the requirements of our customers for additional certification, our Shenzhen factory is also certified with ICTI Ethical Toy Program, Disney's Facility and Merchandise Authorization endorsement that validate our compliance with local laws and high quality working conditions.

	FY2018	FY2017	Changes	%
Numbers of accident reported	9	6	3	50.00
Loss of working days	811	558	253	45.34
Fatality case	0	1	−1	−100

During FY2018, our loss of working days was 811, which was higher than 558 days in FY2017. The number of accidents reported in FY2018 increased by 50.0% from 6 to 9 when compared with FY2017 and we did not have any work related fatality case.

2.4.2 Safety Training

Maintaining an accident-free workplace environment is always a challenge. Our Human Resources Department has established health and safety training programs to increase the awareness of workplace safety. Each new employee working in our Shenzhen factory is required to undergo orientation programs training before they are assigned to work in their job positions.

Other trainings mainly focus on work safety and health protection including fire drills, occupational injury prevention training, fall prevention training, workplace safety training such as chemical usage, machinery safety and forklift operation, which reinforces the idea and awareness of occupational and fire safety for our employees.

2.4.3 Management Approach for FY2019

(i) Provide a supportive, pleasant and healthy workplace for the employees and foster a caring working environment:

- To continue providing health and safety training courses for employees and reminding them the importance of industrial safety

- To reduce the loss of working hours due to injuries at or below 800 days

- To ensure a zero work related fatality case

3. Supply Chain Management Strategy

A well-established supply chain management is necessary to manage the selection of approved suppliers with quality materials and a system to continue monitoring the performance of suppliers is crucial for the Group's sustainable operations.

3.1 Reliable Suppliers Objective

The Group's supply chain management system is for selection of reliable and qualified suppliers to work with the Group for providing quality and timely supply of materials for production requirements on an on-going basis.

We aim at building long-term relationships with our suppliers based on mutual trust that all purchases must be under a fair, objective and professional manner. Our procurement is based upon criteria that not only price, quality, delivery capacity are important, but also integrity, social and environmental responsibility.

3.1.1 Selection of Suppliers

Suppliers can be coming from trade referrals, for new materials, replacement of existing supplier, and all the new suppliers need to go through a comprehensive supplier audit to ensure meeting our procurement criteria before acceptance as approved suppliers.

During FY2018, all of our major suppliers are from the local industries in PRC and Hong Kong and the major material that the Group purchased for the year is paper material accounting for 71.42% of total purchases of materials compared with 66.81% in FY2017. The selection of local suppliers can reduce the transportation requirement that is environmental friendly and also shorten the delivery lead-time for production efficiency.

3.1.2 Monitoring and Assessment

We conduct testing and examinations at early stage of production process on the critical materials to identify any possible defective issues and to discuss with the suppliers for corrective actions in a timely manner.

There are regular performance assessments on the approved suppliers for continuing meeting our selection criteria and to ensure that any unfavorable issues on the supply of materials can be identified earlier to mitigate the potential risks that could affect our production planning, delivery and quality of our products.

If there are areas of non-compliance identified during the supplier audit, the supplier is required to propose corrective actions and implementation schedule for our follow up checking to confirm that the corrective actions have been properly implemented.

During FY2018, we have audited 10 major suppliers. A small number of local suppliers were added as approved suppliers for the supply of consumables to our Shenzhen factory.

3.1.3 Management Approach for FY2019

(i) Continue managing our supply chain in a socially and environmentally responsible manner and source from approved suppliers who satisfied the Group's procurement criteria.

- To conduct regular assessments and audit on major suppliers

4. Product Responsibility Strategy

We should be a responsible producer of products that comply with all the necessary quality and safety standards for final consumption by consumers without any concern for hazardous substance and defective.

4.1 Quality Product Objective

From initial design to final production, our products should meet the customers' specified standards on design and material usage to ensure that our products also comply with the necessary quality and safety standards before shipment.

4.1.1 Product Safety

We are committed to manufacture products that meet the highest international health and safety standards. All our products follow strict specifications on banned and restricted substances on the ink, paper, glue, and plastic film materials in our production. Our products sold in the United States and Europe are in compliance with the required safety standards, such as RoHS (Restriction of Hazardous Substances) Directive, EN (European Standards), SVHC (Substances of Very High Concern) under REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) Regulation, ASTM (American Society for Testing and Materials) Standards.

4.1.2 Quality Control and Testing Procedures

We have implemented a stringent quality control system, from materials, components, machines and equipment, and the final products to ensure that the use of all materials and production process are compliant with both international and local standards and requirements.

Our production facilities are all certified with ISO9001 and ISO14001. Under the quality management system, quality assurance is performed to examine the product's quality against the acceptance quality level standard at every stage of the production process. Incoming raw materials, such as paper and ink, are periodically tested against customers' technical specifications. Colours are matched against the customers' approved blue print. Finished goods undergo a number of tests and visual inspections, before packaging and delivery to ensure the exact specifications of the customers are met. We have also maintained a professional customer services team with high service standard to ensure responsiveness to customers' needs. By implementing the highest level of standard on quality management, we provide not only excellent products, but also safe and secured products to our customers.

4.1.3 Management Approach for FY2019

(i) Continue to ensure that all products are compliant with the international quality and safety standards

- To comply and enhance the Group's quality control system on production
- To ensure zero product recalls, fines or penalties relating to non-compliance with regulations

5. Anti-Corruption

We are committed to establish and maintain an ethical culture that honesty and integrity are the basic attributes of all our employees that we should prevent any frauds that could happened in all our business activities. We shall uphold the high standard of honesty and integrity for the interests of all our stakeholders, including our employees, suppliers and customers.

All of our employees are free to report any suspected fraud or corruption activities to top management and the Group has the whistle-blowing policy allowing the reporting directly to the Chairman of the Audit Committee for taking further investigations and necessary actions on allegations for protecting the overall interests of the Group. Our internal control policy has specified control procedures for conducting the investigation and no reprisals shall be made against the employee reporting the suspected case.

The Group complied with all relevant laws and regulations relating to bribery, extortion, fraud and money laundering. There was no case received by the Group during FY2018 and also FY2017 for reporting any suspected fraud and corruption activities that reflect the proper and fair conduct of the Group's business and operating activities.

6. Community Investment

The Group has an obligation to offer community investment as being part of the local community where the Group's operations are located and we strive to operate as a responsible corporate and continually support the economic and social vitality of local communities.

During FY2018, the Group has participated in a range of charitable and community service activities. In Shenzhen, we have participated in the monthly cleaning of a local park, visits to child care centers, night time safety patrolling in local areas, provide volunteer workers in anniversary celebration show. In Hong Kong, we have participated in volunteer work, visiting home for the aged, sponsoring the printing of event pamphlets for charitable organizations.

7. Closing remarks

As a responsible corporate citizen, we will continue to make efforts contributing to the well being on environmental protection and social responsibility in the Group's overall business strategies and activities, taking into consideration to add value for our stakeholders and to also care for the communities.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PROSPEROUS PRINTING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Prosperous Printing Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 68 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Revenue recognition on sales of goods

Refer to Note 4(a) to the consolidated financial statements and the accounting policies on page 98.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue is mainly derived from the sales of books and paper products. The Group sells its books and paper products to customers according to the terms of separate purchase orders. The Group recognises revenue from domestic sales when the customers have received and accepted the goods which is acknowledged by the customer signing the goods delivery notes. The Group recognises revenue from export sales when the control of ownership of the goods have been transferred to the buyer which is generally considered to be when the goods are loaded on board a shipping vessel or arrived at the customer's destination in line with contractual arrangements and related agreed commercial shipping terms. We have identified revenue recognition on sales of goods as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of misstatement of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue arising from sales of goods included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, revenue transactions recorded before and after the financial year end date with signed goods delivery notes and shipping documents (as appropriate) to assess whether the revenue had been recognised in the appropriate financial period; • inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management about the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation; and • selecting a sample of sales transactions recorded during the year and comparing the details to customer signed goods delivery notes (for domestic sales) and shipping documents, which included bills of lading and confirmed shipping orders (for export sales).

Impairment assessment of trade receivables

Refer to Notes 3(c), 17 and 25(a) to the consolidated financial statements and the accounting policies on pages 87 to 90.

The Key Audit Matter	How the matter was addressed in our audit
The Group has significant trade receivables balances as at year end. Given the size of the balances and the risk that some of the trade receivables may not be recoverable, judgement is required to evaluate whether any allowance should be made to reflect the risk. During the year, the Group has applied HKFRS 9 "Financial Instruments" from 1 January 2018. In accordance with HKFRS 9, trade receivables continue to be measured at amortised cost, and subject to expected credit loss (ECL) assessment. Accordingly, management has constructed a provision matrix to compute the expected loss rate through the summation of each average age bands and applied the expected loss rate to the trade receivable balances to arrive at the ECL allowance. The expected loss rate generated will depend on the length and amount of historical data used and forward-looking adjustments made. This has resulted in a significant degree of management judgement in the ECL assessment. We have identified impairment assessment of trade receivables as a key audit matter because the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses allowance of the trade receivables.	Our audit procedures in relation to management's impairment assessment of trade receivables included the following: • understanding and validating the credit control procedures performed by management, including its procedures on periodic review of aged receivables and assessment on expected credit losses allowance of receivables; • testing on a sample basis, the accuracy of ageing profile of trade receivables by checking to the underlying sales invoices; • testing on a sample basis, the subsequent settlement of trade receivables against bank receipts; • performing audit procedures including, amongst others, reviewing the reasonableness of significant judgement used by the management in assessing the recoverability of trade receivables and reviewing management's assessment of the recoverability of long outstanding and overdue trade receivables; and • testing the reasonableness of management's assumptions and inputs used to develop the provision matrix, through analyses of ageing of trade receivables and historical credit loss experience, reviewing data and information that management has used, including consideration of forward-looking information based on specific economic data, and checking the arithmetic accuracy of management's computation of the ECL.

Independent Auditor's Report

Information other than the consolidated financial statements and auditor's report thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinances, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Auditor's 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.

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

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

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 25 March 2019

Yau Hok Hung
Practising Certificate Number P04911

Consolidated Statement Of Profit Or Loss

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	4(a)	**432,538**	430,717
Cost of sales		**(305,250)**	(311,635)
Gross profit		**127,288**	119,082
Other income	5	**10,554**	10,434
Distribution costs		**(27,955)**	(26,972)
Administrative expenses		**(70,897)**	(65,776)
Other expenses		**—**	(15,988)
Profit from operations		**38,990**	20,780
Finance costs	6(a)	**(8,221)**	(8,321)
Profit before taxation	6	**30,769**	12,459
Income tax	7	**(6,434)**	(5,929)
Profit for the year		**24,335**	6,530
		HK Cents	HK Cents
Earnings per share	11		
Basic		**3.04**	1.07
Diluted		**3.04**	1.07

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

The notes on pages 75 to 159 form part of these financial statements.

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit for the year		**24,335**	6,530
Other comprehensive (loss)/income for the year, net of Nil tax	10		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(6,551)**	7,981
Available-for-sale investments:			
Net movement in fair value reserve (recycling)*		**—**	(14)
Other comprehensive (loss)/income for the year, net of Nil tax		**(6,551)**	7,967
Total comprehensive income for the year		**17,784**	14,497

* This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained profits. See Note 2(c)(i).

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

The notes on pages 75 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	12	**252,951**	259,265
Intangible assets	13	**755**	915
Available-for-sale investments	14	**—**	2,573
Financial assets at fair value through profit or loss	14	**2,433**	—
Investments in key management insurance policies	15	**8,343**	8,176
Deposits for acquisition of property, plant and equipment		**—**	3,533
		264,482	274,462
Current assets			
Inventories	16	**86,318**	76,139
Trade and other receivables	17	**143,789**	123,204
Pledged bank deposits	18	**6,843**	6,763
Cash and cash equivalents	19	**35,448**	49,375
		272,398	255,481
Current liabilities			
Trade and other payables	20	**58,961**	68,660
Bank loans and overdrafts	21	**142,470**	138,386
Obligations under finance leases	22	**5,282**	2,105
Tax payable	23(a)	**1,473**	1,295
		208,186	210,446
Net current assets		**64,212**	45,035
Total assets less current liabilities		**328,694**	319,497
Non-current liabilities			
Bank loans	21	**30,243**	41,425
Obligations under finance leases	22	**7,045**	4,893
Deferred tax liabilities	23(b)	**5,674**	4,572
		42,962	50,890
NET ASSETS		**285,732**	268,607

Consolidated Statement Of Financial Position

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	24(c)	**100,843**	100,843
Reserves		**184,889**	167,764
TOTAL EQUITY		**285,732**	268,607

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

Approved and authorised for issue by the Board of Directors on 25 March 2019.

Lam Sam Ming	**Chan Sau Po**
Director	*Director*

The notes on pages 75 to 159 form part of these financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2018

	Note	Share capital HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Fair value reserve (recycling) HK$'000	Retained profits HK$'000	Total equity HK$'000
Balance at 1 January 2017		27,539	(10,606)	3,318	(83)	160,638	180,806
Changes in equity for 2017:							
Profit for the year		—	—	—	—	6,530	6,530
Other comprehensive income for the year	10	—	7,981	—	(14)	—	7,967
Total comprehensive income for the year		—	7,981	—	(14)	6,530	14,497
Issuance of shares upon initial public offering	24(c)(iii)	70,000	—	—	—	—	70,000
Listing expenses directly attributable to issuance of shares		(11,696)	—	—	—	—	(11,696)
Capital contribution from the controlling shareholder	24(c)(ii)	15,000	—	—	—	—	15,000
Balance at 31 December 2017 *(note)*		100,843	(2,625)	3,318	(97)	167,168	268,607
Impact on initial application of HKFRS 9 *(Note 2(c)(i))*		—	—	—	97	(756)	(659)
Adjusted balance at 1 January 2018		**100,843**	**(2,625)**	**3,318**	**—**	**166,412**	**267,948**
Changes in equity for 2018:							
Profit for the year		**—**	**—**	**—**	**—**	**24,335**	**24,335**
Other comprehensive income for the year	**10**	**—**	**(6,551)**	**—**	**—**	**—**	**(6,551)**
Total comprehensive income for the year		**—**	**(6,551)**	**—**	**—**	**24,335**	**17,784**
Balance at 31 December 2018		**100,843**	**(9,176)**	**3,318**	**—**	**190,747**	**285,732**

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

The notes on pages 75 to 159 form part of these financial statements.

Consolidated Statement Of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Operating activities			
Cash generated from/(used in) operations	19(b)	**23,318**	(31,714)
Tax paid			
– PRC Enterprise Income Tax		**(2,430)**	(7,837)
– Hong Kong Profits Tax		**(2,632)**	(5,979)
Tax refund			
– Hong Kong Profits Tax		**156**	—
Net cash generated from/(used in) operating activities		**18,412**	(45,530)
Investing activities			
Payment for purchase of property, plant and equipment		**(14,286)**	(2,433)
Proceeds from disposal of property, plant and equipment		**1,428**	6,809
(Increase)/decrease in pledged bank deposits		**(80)**	5,222
Upfront payment of investments in key management insurance policies		**—**	(3,060)
Payment for deposit for acquisition of property, plant and equipment		**—**	(300)
Interest received		**426**	226
Net cash (used in)/generated from investing activities		**(12,512)**	6,464
Financing activities			
Proceeds from issuance of shares upon initial public offering		**—**	70,000
Capital contribution from the controlling shareholder		**—**	15,000
Payment for listing expenses attributable to issuance of shares		**—**	(11,696)
Proceeds from new bank loans	19(c)	**410,082**	425,094
Repayment of bank loans	19(c)	**(428,330)**	(386,897)
Capital elements of finance lease rentals paid	19(c)	**(4,287)**	(4,529)
Interest elements of finance lease rentals paid	19(c)	**(504)**	(276)
Interest and other borrowing costs paid	19(c)	**(7,717)**	(8,045)
Net cash (used in)/generated from financing activities		**(30,756)**	98,651

Consolidated Statement Of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Net (decrease)/increase in cash and cash equivalents		**(24,856)**	59,585
Effects of foreign exchange rate changes		**(221)**	62
Cash and cash equivalents at 1 January		**49,375**	(10,272)
Cash and cash equivalents at 31 December	19(a)	**24,298**	49,375

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

The notes on pages 75 to 159 form part of these financial statements.

1. GENERAL INFORMATION

Prosperous Printing Company Limited (the "**Company**") was incorporated in Hong Kong on 23 December 1992 with limited liability under the Hong Kong Companies Ordinance. The shares of the Company were listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 December 2017.

The address of the Company's registered office is 3/F., Yip Cheung Centre, 10 Fung Yip Street, Chai Wan, Hong Kong.

The Company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the production and trading of books and paper products.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). These financial statements are presented in Hong Kong dollar ("**HK$**"), which is the Company's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets that are measured at fair value through profit or loss are stated at their fair value (see Note 2(e)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

i) HKFRS 9, *Financial instruments*

ii) HKFRS 15, *Revenue from contracts with customers*

iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves at 1 January 2018.

	HK$'000
Retained profits	
Transferred from fair value reserve (recycling) relating to financial assets now measured at fair value through profit or loss (FVTPL)	(97)
Recognition of additional expected credit losses on trade receivables	(659)
Net decrease in retained profits at 1 January 2018	(756)
Fair value reserve (recycling)	
Transferred to retained profits relating to financial assets now measured at FVTPL	97
Net increase in fair value reserve (recycling) at 1 January 2018	97

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

(i) *HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)*

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

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVTOCI) and at FVTPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 HK$'000	**Reclassification** HK$'000	**HKFRS 9 carrying amount at 1 January 2018** HK$'000
Financial assets carried at FVTPL			
Investment funds *(note)*	—	2,573	2,573
Financial assets classified as available-for-sale under HKAS 39 *(note)*	2,573	(2,573)	—

Note: Under HKAS 39, investment funds were classified as available-for-sale investments. They are classified as financial assets carried at FVTPL under HKFRS 9.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

(i) *HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)*

a. *Classification of financial assets and financial liabilities (Continued)*

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in Notes 2(e), 2(i)(i), 2(l) and 2(m).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including pledged bank deposits, cash and cash equivalents, trade and other receivables and investments in key management insurance policies) and contract assets as defined in HKFRS 15 (see Note 2(k)).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(i)(i).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under HKAS 39	17,362
Additional credit loss recognised at 1 January 2018 on trade receivables	659
Loss allowance at 1 January 2018 under HKFRS 9	18,021

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The assessment for the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

Timing of revenue recognition

Previously, revenue from sales of goods was recognised at a point in time when the risks and rewards of ownership of goods had passed to the customers and provision of sub-contracting services was also recongised at a point in time when the related services are rendered.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods (see Note 2(s)(i)) and provision of sub-contracting services (see Note 2(s)(ii)).

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are set out as follows:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVTPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 25(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(s)(iv)).

— fair value through other comprehensive income (FVTOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— fair value at profit or loss (FVTPL) if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Other investments in debt and equity securities (Continued)

(i) Policy applicable from 1 January 2018 (Continued)

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(s)(iii).

(ii) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see Note 2(i)(i) — policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available- for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in Notes 2(s)(iii) and 2(s)(iv), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see Note 2(i)(i) — policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, over their estimated useful lives. The principal annual rates and bases used are as follows:

Leasehold land and buildings classified as held under finance leases are depreciated over the shorter of the useful life of the buildings or the unexpired term of the land lease using the straight line method.

Plant and machinery	10% using the reducing balance method
Leasehold improvements, fixtures and furnitures	20% using the reducing balance method
Motor vehicles	20% using the reducing balance method

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Computer Software	10 years

Both the period and method of amortisation are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

a. Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, trade and other receivables and investments in key management insurance policies).

Financial assets measured at fair value (i.e., investment funds measured at FVTPL) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

a. Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

— failure to make payments of principal or interest on their contractually due dates;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) *Credit losses from financial instruments (Continued)*

a. *Policy applicable from 1 January 2018 (Continued)*

Significant increases in credit risk (Continued)

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) *Credit losses from financial instruments (Continued)*

a. *Policy applicable from 1 January 2018 (Continued)*

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

b. Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVTPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

b. Policy applicable prior to 1 January 2018 (Continued)

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade receivable or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

— For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets;

— deposits for acquisition of property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(l)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(l)).

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

When the contract includes a significant component, the contract balance includes interest accrued under the effective interest method (see Note 2(s)).

(l) Trade and other receivables

A receivables is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(k)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(i)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(i)(i).

(n) Trade and other payables

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

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(u)).

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

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

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (Continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

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

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when goods were delivered at the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership. There is no impact to opening balance as at 1 January 2018 (see Note 2(c)(ii)).

(ii) Provision of sub-contracting services

Revenue arising from provision of sub-contracting services is recognised when the customer accepts and takes the control of the goods sub-contracted to the Group.

(iii) Dividend income

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue and other income (Continued)

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(i)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Translation of foreign currencies

Foreign currency transactions during the reporting period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into HK$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

a. A person, or a close member of that person's family, is related to the Group if that person:

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

iii) is a member of the key management personnel of the Group or the Group's parent.

b. An entity is related to the Group if any of the following conditions applies:

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties (Continued)

b. An entity is related to the Group if any of the following conditions applies: (Continued)

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (a).

vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 25 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of property, plant and equipment

If circumstances indicate that the carrying amounts of property, plant and equipment may not be recoverable, the assets may be considered "impaired" and are tested for impairment. An impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in Note 2(i)(ii). The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. When the recoverable amount is lower than the carrying amount, an impairment loss is recognised in profit or loss. However, any change in the assumptions adopted in the cash flow forecasts would increase or decrease the provision for impairment loss and affect the Group's financial position. Details of the nature and carrying amounts of property, plant and equipment are disclosed in Note 12.

(b) Useful lives, residual values and depreciation of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives, and 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; 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 the future period.

(c) Loss allowance of trade receivables

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. The management has established a loss allowance for trade receivables based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current conditions and forecasts of future economic conditions at the end of reporting period. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the loss allowance in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables during their expected lives.

(d) Net realisable value of inventories

The Group performs regular review of the carrying amounts of inventories as disclosed in Note 16 with reference to ageing analysis of the Group's inventories, expected future consumption, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the estimated net realisable value of inventories declines below their carrying amount. Due to changes in technological, market and economic environment, actual consumption and actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(e) Income taxes and deferred tax assets

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax assets and liabilities in the period in which such determinations are made.

Deferred tax assets relating to temporary differences and tax losses are recognised when management expects 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 estimates, such differences will impact the recognition of deferred tax assets in the period in which such estimates have been changed.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the amounts received and receivable from sales of books and paper products and provision of sub-contracting services, which are recognised at a point in time.

(i) Disaggregation of revenue

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

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
Revenue arising from sales of books and paper products	405,202	412,202
Revenue arising from provision of sub-contracting services	27,336	18,515
	432,538	430,717

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see Note 2(c)(ii)).

Disaggregation of revenue from contracts with customers by geographical areas is disclosed in Note 4(b).

4. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (Continued)

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for books and paper products and services contracts for sub-contracting works that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of books and paper products and provision of sub-contracting services that had an original expected duration of one year or less.

(b) Segment reporting

HKFRS 8 "Operating Segments" requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Company's executive directors, being the Group's chief operating decision makers ("CODM"), for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the production and sale of books and paper products.

(i) Information about major customers

The Group's customer base is diversified and includes two customers (2017: two) with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2018. Revenue arising from sales of books and paper products to these customers, including sales to entities which are known to the Group to be under common control with each of these customers, for the year ended 31 December 2018 was HK$105,309,000 (2017: HK$110,845,000) and HK$64,707,000 (2017: HK$46,999,000) respectively.

Details of concentrations of credit risk arising from these customers are set out in Note 25(a).

4. REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(ii) Information about geographical areas

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and deposits for acquisition of property, plant and equipment ("**specified non-current assets**"). The geographical location of customers is based on the location of external customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		Specified non-current assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**213,089**	213,977	**139,443**	145,380
Mainland China	**27,336**	18,515	**114,263**	118,333
United States	**142,242**	124,874	**—**	—
United Kingdom ("**UK**")	**27,965**	49,276	**—**	—
Australia	**3,315**	8,042	**—**	—
Other countries	**18,591**	16,033	**—**	—
	432,538	430,717	**253,706**	263,713

Revenue from the individual countries included in other countries is not significant.

5. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Bank interest income	426	226
Interest income from investments in key management insurance policies	281	184
Profit arising from sales of scrap materials	3,172	2,614
Income received from government subsidies	2,681	694
Net foreign exchange gain	3,638	4,503
(Loss)/gain on disposal of property, plant and equipment	(877)	620
Change in fair value of financial assets at FVTPL	(140)	—
Bad debt recovery	1,009	388
Sundry income	364	1,205
	10,554	10,434

Government subsidies were received from several local government authorities in the People's Republic of China (the "**PRC**") for the Group's contribution to local economies, of which the entitlements were unconditional and at the discretion of the relevant authorities.

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2018 HK$'000	2017 HK$'000
(a) Finance costs		
Interest on bank loans and overdrafts *(Note 19(c))*	7,004	6,579
Finance charges on obligations under finance leases *(Note 19(c))*	504	276
Other borrowing costs *(Note 19(c))*	713	1,466
Total interest expense on financial liabilities not at fair value through profit or loss	8,221	8,321
(b) Staff costs# (including directors' emoluments)		
Contributions to defined contribution retirement plans	9,677	14,430
Salaries, wages and other benefits	92,080	91,031
	101,757	105,461

The Group operates a Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

In addition, employees with 4 years to 10 years of service of the Group are entitled to receive the employer's additional voluntary contributions equal to 5% to 10% of the employees' monthly basic salaries when the employees make additional voluntary contributions at the same time. The maximum voluntary contributions of the Group for those employees with services of the Group more than 10 years are 10% of the employees' basic salaries.

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiary in the PRC participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the relevant local government authorities in the PRC whereby the subsidiary is required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2018 and 2017.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

6. PROFIT BEFORE TAXATION (CONTINUED)

Profit before taxation is arrived at after charging: (Continued)

(c) Other items

	2018 HK$'000	2017 HK$'000
Auditors' remuneration — audit services	**1,170**	1,000
Amortisation of intangible assets	**118**	115
Depreciation of property, plant and equipment#	**18,428**	20,823
Impairment losses on trade receivables *(Note 25(a)(i))*	**407**	321
Operating lease charges in respect of office, factory and warehouse#	**9,707**	8,848
Cost of finished goods# *(Note 16(b))*	**305,250**	311,635
Listing expenses	**—**	15,243

Cost of finished goods includes HK$81,906,000 (2017: HK$83,964,000) relating to staff costs, operating lease charges and depreciation expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	2018 HK$'000	2017 HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**2,874**	3,400
Over-provision in respect of prior years	**(363)**	(990)
Current tax — PRC Enterprise Income Tax		
Provision for the year	**2,535**	2,461
Under-provision in respect of prior years	**92**	—
Deferred tax *(Note 23(b))*		
Origination and reversal of temporary differences	**1,296**	1,058
	6,434	5,929

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operates.

The provision for the PRC Enterprise Income Tax of the subsidiary established in the PRC is calculated at 25% of the estimated taxable profits for the reporting period.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in the jurisdiction.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rate regime, the first HK$2 million of profits of a qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

For the year ended 31 December 2018, Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

The directors of the Company are in the view that the impact of the two-tiered profits tax rates regime on the Group's current and deferred tax position is not material.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 **HK$'000**	2017 HK$'000
Profit before taxation	**30,769**	12,459
Notional tax on profit before taxation calculated at the rates applicable to the profits in the jurisdictions concerned	**5,895**	3,199
Tax effect of non-deductible expenses	**1,192**	4,049
Tax effect of non-taxable income	**(70)**	(78)
Tax effect of tax losses not recognised	**819**	302
Utilisation of unused tax losses	**(429)**	(547)
Statutory tax concession	**(60)**	—
Over-provision in prior years	**(271)**	(990)
Others	**(642)**	(6)
Actual tax expense	**6,434**	5,929

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

For the year ended 31 December 2018:

	Directors' fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors				
Lam Sam Ming *(Chairman and chief executive)*	2,160	540	234	2,934
Yao Yuan	300	60	15	375
Chan Sau Po	762	171	89	1,022
Non-executive director				
Ong Chor Wei	120	—	—	120
Independent non-executive directors				
Cheung Yin	120	—	—	120
Wong Hei Chiu	120	—	—	120
Leung Vincent Gar-Gene	120	—	—	120
	3,702	771	338	4,811

For the year ended 31 December 2017:

	Note	Directors' fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Lam Sam Ming *(Chairman and chief executive)*		110	2,565	234	2,909
Yao Yuan		12	258	13	283
Chan Sau Po		35	848	86	969
Non-executive director					
Ong Chor Wei		6	—	—	6
Independent non-executive directors					
Cheung Yin	(i)	6	—	—	6
Wong Hei Chiu	(i)	6	—	—	6
Leung Vincent Gar-Gene	(i)	6	—	—	6
		181	3,671	333	4,185

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

During the year, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the year.

Note:

i) Cheung Yin, Wong Hei Chiu and Leung Vincent Gar-Gene were appointed as independent non-executive directors of the Company on 15 November 2017.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other emoluments	2,162	2,120
Retirement scheme contributions	240	217
	2,402	2,337

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following band:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	3	3

10. OTHER COMPREHENSIVE (LOSS)/INCOME

Components of other comprehensive (loss)/income, including reclassification adjustments, are as follows:

	2018 HK$'000	2017 HK$'000
Exchange differences arising on translation of foreign operations	(6,551)	7,981
Available-for-sale investments:		
Net movement in fair value reserve (recycling)*	—	(14)
	(6,551)	7,967

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$24,335,000 (2017: HK$6,530,000) and the weighted average of 800,000,000 (2017: 610,411,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018 '000	2017 '000
Issued ordinary shares at 1 January	800,000	600,000
Effect of shares issued upon initial public offering *(Note 24(c)(iii))*	—	10,411
Weighted average number of ordinary shares at 31 December	800,000	610,411

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017, and therefore, diluted earnings per share is the same as the basic earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings held for own use HK$'000	Plant and machinery HK$'000	Leasehold improvements, fixtures and furnitures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 January 2017	131,800	366,449	10,995	5,593	514,837
Additions	—	608	708	1,117	2,433
Disposals	—	(51,804)	—	(948)	(52,752)
Exchange realignment	—	7,440	186	50	7,676
At 31 December 2017	**131,800**	**322,693**	**11,889**	**5,812**	**472,194**
At 1 January 2018	131,800	322,693	11,889	5,812	472,194
Additions	—	13,262	3,347	1,210	17,819
Disposals	—	(23,178)	—	(1,011)	(24,189)
Exchange realignment	—	(7,158)	(160)	(28)	(7,346)
At 31 December 2018	**131,800**	**305,619**	**15,076**	**5,983**	**458,478**
Accumulated depreciation:					
At 1 January 2017	1,894	221,988	7,994	4,030	235,906
Charge for the year	4,544	15,134	674	471	20,823
Written back on disposals	—	(45,733)	—	(830)	(46,563)
Exchange realignment	—	2,592	128	43	2,763
At 31 December 2017	**6,438**	**193,981**	**8,796**	**3,714**	**212,929**
At 1 January 2018	6,438	193,981	8,796	3,714	212,929
Charge for the year	4,545	12,284	1,117	482	18,428
Written back on disposals	—	(20,990)	—	(894)	(21,884)
Exchange realignment	—	(3,817)	(115)	(14)	(3,946)
At 31 December 2018	**10,983**	**181,458**	**9,798**	**3,288**	**205,527**
Carrying amount:					
At 31 December 2018	**120,817**	**124,161**	**5,278**	**2,695**	**252,951**
At 31 December 2017	125,362	128,712	3,093	2,098	259,265

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group's properties

The leasehold land and buildings are held in Hong Kong on long leases.

(b) Assets held under finance leases

In addition to the leasehold land and buildings classified as being held under a finance lease in note (a) above, the Group leases production plant and machinery under finance leases expiring in 3 years. At the end of the lease term the Group has the option to purchase the leased machinery or equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year, additions to plant and machinery and motor vehicles financed by new finance leases were HK$2,257,000 (2017: Nil). At 31 December 2018, the carrying amount of plant and machinery and motor vehicles held under finance leases were HK$14,230,000 (2017: HK$8,379,000).

(c) Pledge of property, plant and equipment

At 31 December 2018, the Group's properties and machinery (as included in plant and machinery) with carrying amounts of HK$120,817,000 (2017: HK$125,362,000) and HK$6,263,000 (2017: HK$7,336,000), respectively, were pledged as collateral for the Group's banking facilities (see Note 21).

13. INTANGIBLE ASSETS

	Computer software HK$'000
Cost:	
At 1 January 2017	1,114
Additions	—
Exchange realignment	83
At 31 December 2017	**1,197**
At 1 January 2018	1,197
Additions	—
Exchange realignment	(61)
At 31 December 2018	**1,136**
Accumulated amortisation:	
At 1 January 2017	151
Charge for the year	115
Exchange realignment	16
At 31 December 2017	**282**
At 1 January 2018	**282**
Charge for the year	**118**
Exchange realignment	**(19)**
At 31 December 2018	**381**
Carrying amount:	
At 31 December 2018	**755**
At 31 December 2017	915

The amortisation charge is included in "administrative expenses" in the consolidated statement of profit or loss.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS

	2018 HK$'000	2017 HK$'000
Financial assets at FVTPL (see note below)		
Investment funds in Hong Kong, at fair value		
— Unlisted but quoted funds	2,433	—
Available-for-sale investments (see note below)		
Investment funds in Hong Kong, at fair value		
— Unlisted but quoted funds	—	2,573

Note: Available-for-sale investments were reclassified to financial assets measured at FVTPL upon initial application of HKFRS 9 at 1 January 2018 (see Note 2(c)(i)).

The fair value of investment funds is based on quoted market price in an active market at the end of the reporting period.

The financial assets at FVTPL of approximately HK$2,433,000 (2017: available-for-sale investments of approximately HK$2,573,000) denominated in Renminbi ("**RMB**") were pledged as collateral for the Group's banking facilities (see Note 21) as at 31 December 2018.

15. INVESTMENTS IN KEY MANAGEMENT INSURANCE POLICIES

In prior years, the Group entered into the following key management insurance policies:

(a) 2017 key management insurance policies

During the year ended 31 December 2017, the Company entered into two key management insurance policies (the "**Policy I**" and "**Policy II**") with insurance companies to insure two directors of the Company. Under these policies, the Company is the beneficiary and policy holder, and the total insured sums of Policy I and Policy II are US$536,395 and US$1,000,000, respectively. The Company is required to pay a single premium of US$128,000 (equivalent to approximately HK$992,000) and US$256,580 (equivalent to approximately HK$1,988,000), respectively, under the Policy I and Policy II to the insurance company at inception. The Company can, at any time, withdraw cash based on the account value of the relevant policy ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated interest earned and minus any charges made in accordance with the terms and conditions of the policies. If withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge deducted from Account Value. Under the Policy I, the insurance company will pay the Group a guaranteed interest rate of 3.9% per annum for the first five years and a variable return per annum afterwards (with guaranteed minimum interest rate of 2.25%) during the effective period of the policy. Under the Policy II, the insurance company will pay the Group a guaranteed interest rate of 3.4% per annum for the first year and a variable return per annum afterwards (with guaranteed minimum interest rate of 1.8%) during the effective period of the policy.

15. INVESTMENTS IN KEY MANAGEMENT INSURANCE POLICIES (CONTINUED)

(a) 2017 key management insurance policies (Continued)

As represented by the directors of the Company, the Company will not terminate the policies nor withdraw cash prior to the end of the 15th policy year and the expected life of the policies remained unchanged since their initial recognition. The balances of the deposit of key management insurance policies are denominated in United States dollar ("**US$**"), being a currency other than the functional currency of the relevant group entity.

(b) 2016 key management insurance policy

During the year ended 31 December 2016, the Company entered into a key management insurance policy with an insurance company to insure a director of the Company. Under this policy, the Company is the beneficiary and policy holder and the total insured sum is US$1,250,000. The Company is required to pay a single premium of US$655,862 (equivalent to approximately HK$5,083,000) to the insurance company at inception. The Company can, at any time, withdraw cash based on the account value of the policy ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 18th policy year, there is a specified amount of surrender charge deducted from Account Value. The insurance company will pay the Group a guaranteed interest rate of 4% per annum for the first year and a variable return per annum afterwards (with guaranteed minimum interest rate of 2%) during the effective period of the policy.

As represented by the directors of the Company, the Company will not terminate the policy nor withdraw cash prior to the end of the 18th policy year and the expected life of the policy remained unchanged since its initial recognition. The balance of the deposit of key management insurance policy is denominated in US$, being a currency other than the functional currency of the relevant group entity.

At the inception date, the gross premium paid by the Company included a fixed policy premium charge and a deposit. Monthly policy expense and insurance charges will be incurred over the insurance period with reference to the terms set out in the relevant key management insurance policies. The policy premium, expense and insurance charges are recognised in profit or loss over the expected life of the relevant policy and the deposit placed is carried at amortised cost using the effective interest method.

As at 31 December 2018, investments in key management insurance policies with carrying amount of HK$7,333,000 (2017: HK$7,213,000) were pledged as collateral for the Group's banking facilities (see Note 21).

16. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 HK$'000	2017 HK$'000
Raw materials	59,714	57,224
Work-in-progress	22,667	16,037
Finished goods	3,937	2,878
	86,318	76,139

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Note	2018 HK$'000	2017 HK$'000
Carrying amount of finished goods sold	6(c)	305,250	311,635

17. TRADE AND OTHER RECEIVABLES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Trade receivables	147,854	123,439	123,439
Less: loss allowance (see note below)	(12,423)	(18,021)	(17,362)
Trade receivables, net of loss allowance	135,431	105,418	106,077
Advance to a sub-contractor	—	9,023	9,023
Other receivables	643	729	729
Financial assets measured at amortised cost	136,074	115,170	115,829
Prepayments	4,356	2,888	2,888
Utility and other deposits	593	604	604
Other tax recoverable	2,766	3,883	3,883
	143,789	122,545	123,204

Note: Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see Note 2(c)(i)).

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

The amount of utility and other deposits expected to be recovered or recognised as expense after more than one year is HK$560,000 (2017: HK$580,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	44,197	36,654
1 to 3 months	40,984	29,032
3 to 6 months	31,407	31,315
6 to 12 months	16,095	7,506
Over 1 year	2,748	1,570
	135,431	106,077

Trade receivables are normally due within 180 days from the date of billing. Further details on the Group's credit policy are set out in Note 25(a)(i).

At 31 December 2018, trade receivables with carrying amounts of HK$32,879,000 (2017: HK$31,489,000) were pledged as collateral for the Group's banking facilities (see Note 21).

18. PLEDGED BANK DEPOSITS

Pledged bank deposits are pledged to a bank to secure banking facilities granted to the Group (see Note 21).

19. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 **HK$'000**	2017 HK$'000
Cash and cash equivalents in the consolidated statement of financial position		
— Cash at banks and on hand	**35,448**	49,375
Bank overdrafts *(Note 21)*	**(11,150)**	—
Cash and cash equivalents in the consolidated statement of cash flows	**24,298**	49,375

At 31 December 2018, bank balances of a PRC subsidiary amounting to HK$5,755,000 (2017: HK$264,000) are not freely convertible into other currencies and subject to the exchange restrictions imposed by the PRC government.

19. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Note	2018 HK$'000	2017 HK$'000
Profit before taxation		**30,769**	12,459
Adjustments for:			
Depreciation of property, plant and equipment	6(c)	**18,428**	20,823
Loss/(gain) on disposal of property, plant and equipment	5	**877**	(620)
Amortisation of intangible assets	6(c)	**118**	115
Impairment losses on trade receivables	6(c)	**407**	321
Bank interest income	5	**(426)**	(226)
Interest income from investments in key management insurance policies	5	**(281)**	(184)
Insurance premium charge for investments in key management insurance policies		**143**	24
Finance costs	6(a)	**8,221**	8,321
Exchange difference		**876**	(182)
Change in fair value of financial assets at FVTPL	5	**140**	—
Changes in working capital:			
Increase in inventories		**(14,198)**	(18,969)
Increase in trade and other receivables		**(23,192)**	(16,593)
Increase/(decrease) in trade and other payables		**1,436**	(36,978)
Decrease in derivative financial instruments		**—**	(25)
Cash generated from/(used in) operations		**23,318**	(31,714)

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

19. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

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

	Bank loans and overdrafts HK$'000 *(Note 21)*	Finance leases HK$'000 *(Note 22)*	Total HK$'000
At 1 January 2018	179,811	6,998	186,809
Changes from financing cash flows:			
Proceeds from new bank loans	410,082	—	410,082
Repayment of bank loans	(428,330)	—	(428,330)
Interest and other borrowing costs paid	(7,717)	—	(7,717)
Capital elements of finance lease rentals paid	—	(4,287)	(4,287)
Interest elements of finance lease rentals paid	—	(504)	(504)
Total changes from financing cash flows	(25,965)	(4,791)	(30,756)
Other changes:			
Increase in bank overdrafts	11,150	—	11,150
New finance leases	—	9,616	9,616
Finance charges on obligations under finance leases *(Note 6(a))*	—	504	504
Interest on bank loans and overdrafts *(Note 6(a))*	7,004	—	7,004
Other borrowing costs *(Note 6(a))*	713	—	713
Total other changes	18,867	10,120	28,987
At 31 December 2018	172,713	12,327	185,040

19. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans and overdrafts HK$'000 *(Note 21)*	Finance leases HK$'000 *(Note 22)*	Total HK$'000
At 1 January 2017	156,012	1,850	157,862
Changes from financing cash flows:			
Proceeds from new bank loans	425,094	—	425,094
Repayment of bank loans	(386,897)	—	(386,897)
Interest and other borrowing costs paid	(8,045)	—	(8,045)
Capital elements of finance lease rentals paid	—	(4,529)	(4,529)
Interest elements of finance lease rentals paid	—	(276)	(276)
Total changes from financing cash flows	30,152	(4,805)	25,347
Exchange adjustments	—	32	32
Other changes:			
Decrease in bank overdrafts	(14,398)	—	(14,398)
New finance leases	—	9,645	9,645
Finance charges on obligations under finance leases *(Note 6(a))*	—	276	276
Interest on bank loans and overdrafts *(Note 6(a))*	6,579	—	6,579
Other borrowing costs *(Note 6(a))*	1,466	—	1,466
Total other changes	(6,353)	9,921	3,568
At 31 December 2017	179,811	6,998	186,809

20. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade creditors	37,582	39,253
Accrued staff costs	6,649	6,377
Other accruals	1,675	2,816
Payables for listing expenses	—	11,388
Other payables	12,807	8,592
Other tax payable	106	35
Receipts in advance	142	199
	58,961	68,660

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	10,114	8,426
1 to 3 months	22,371	22,222
3 to 6 months	4,837	7,301
6 to 12 months	197	1,284
Over 1 year	63	20
	37,582	39,253

21. BANK LOANS AND OVERDRAFTS

At 31 December 2018, the bank loans and overdrafts were repayable as follows:

	2018 HK$'000	2017 HK$'000
Bank overdrafts	11,150	—
Portion of bank loans due for repayment within one year	130,175	134,596
Portion of bank loans due for repayment after one year which contain a repayment on demand clause	1,145	3,790
Within 1 year or on demand under current liabilities	142,470	138,386
After 1 year but within 2 years	10,014	11,358
After 2 years but within 5 years	15,854	20,337
After 5 years	4,375	9,730
Bank loans under non-current liabilities	30,243	41,425
	172,713	179,811

At 31 December 2018, the bank loans and overdrafts were secured as follows:

	2018 HK$'000	2017 HK$'000
Bank overdrafts		
— secured and guaranteed	11,150	—
Bank loans		
— secured and guaranteed	161,563	179,811
	172,713	179,811

21. BANK LOANS AND OVERDRAFTS (CONTINUED)

The effective interest rates of the Group's bank loans and overdrafts are as follows:

	2018	2017
Effective interest rates:		
Bank loans and overdrafts	**3.13%–6.63% per annum**	2.69%–5.25% per annum

(a) All of the bank loans and overdrafts are carried at amortised costs.

(b) At 31 December 2018, the bank loans and overdrafts of approximately HK$12,211,000 (2017: HK$9,908,000) were denominated in US$.

At 31 December 2018 and 2017, the banking facilities were secured by bank deposits of the Group, financial assets at FVTPL of the Group (2017: available-for-sale investments of the Group), the Group's trade receivables, the Group's property, plant and equipment, the assignment of rental proceeds of the Group's properties situated in Hong Kong, benefits of key management insurance policies and corporate guarantees from the Company and certain subsidiaries.

At the end of the reporting period, the directors of the Company do not consider it probable that a claim will be made against the Company under the corporate guarantee given by the Company, no liability is provided for in the financial statements of the Company. The Company has not recognised any deferred income in respect of this financial guarantee given by the Company as its fair value is insignificant.

21. BANK LOANS AND OVERDRAFTS (CONTINUED)

(b) (Continued)

The carrying amounts of assets pledged against bank loans and overdrafts as at the end of the reporting period were analysed as follows:

	Note	2018 HK$'000	2017 HK$'000
Property, plant and equipment	12(c)	**127,080**	132,698
Available-for-sale investments	14	**—**	2,573
Financial assets at FVTPL	14	**2,433**	—
Investments in key management insurance policies	15	**7,333**	7,213
Trade receivables	17	**32,879**	31,489
Bank deposits	18	**6,843**	6,763
		176,568	180,736
Less: Factoring trade receivables covered by insurance		**(32,879)**	(31,489)
		143,689	149,247

These banking facilities amounted to HK$314,781,000 (2017: HK$323,399,000) as at 31 December 2018. These facilities were utilised to the extent of HK$172,713,000 (2017: HK$179,633,000) as at 31 December 2018.

(c) All of the Group's banking facilities are subject to the fulfilment of covenants based on the financial information of the Group and certain of its subsidiaries, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. In addition, certain of the Group's banking facilities letters contain clauses which give the banks the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of bank loans and does not consider it probable that the banks will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 25(b). As at 31 December 2018, none of the covenants relating to drawn down facilities had been breached (2017: HK$Nil).

21. BANK LOANS AND OVERDRAFTS (CONTINUED)

(d) Notwithstanding the specified repayment schedules as stated in the facilities letters ("**specific repayment terms**") which allow the loans to be repaid over a period of more than one year, certain banking facilities granted to the Group include a clause that gives the banks the unconditional rights to call the bank loans at any time ("**repayment on demand clause**"). These bank loans as at 31 December 2018 and 2017 were classified as current liabilities in the consolidated statement of financial position.

However, the directors of the Company expects that the bank loans and overdrafts are to be repaid as follows based on the specific repayment terms:

	2018 **HK$'000**	2017 HK$'000
Bank loans and overdrafts due for repayment within one year or on demand:		
Overdrafts repayable on demand	**11,150**	—
Bank loans due for repayment within one year	**130,175**	134,596
	141,325	134,596
Bank loans due for repayment after one year *(see note below)*:		
After 1 year but within 2 years	**11,159**	14,010
After 2 years but within 5 years	**15,854**	21,475
After 5 years	**4,375**	9,730
	31,388	45,215
	172,713	179,811

Note: The amounts due are based on the specific repayment terms set out in the banking facilities letters and ignore the effect of any repayment on demand clause.

22. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2018, the Group had obligations under finance leases repayable as follows:

	2018		2017	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**5,282**	**5,708**	2,105	2,346
After 1 year but within 2 years	**5,513**	**5,708**	2,120	2,277
After 2 years but within 5 years	**1,532**	**1,545**	2,773	2,848
	7,045	**7,253**	4,893	5,125
	12,327	**12,961**	6,998	7,471
Less: Total future interest expenses		**(634)**		(473)
Present value of lease obligations		**12,327**		6,998

23. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018 HK$'000	2017 HK$'000
Tax payable at 1 January	1,295	9,689
Provision for Hong Kong Profits Tax for the current year	2,874	3,400
Over-provision for Hong Kong Profits Tax in respect of prior years	(363)	(990)
Provision for PRC Enterprise Income Tax for the current year	2,535	2,461
Under-provision for PRC Enterprise Income Tax in respect of prior years	92	—
Tax paid	(5,062)	(13,816)
Tax refund	156	—
Exchange realignment	(54)	551
Tax payable at 31 December	1,473	1,295

23. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Unrealised loss arising from intra-group transactions HK$'000	Depreciation allowances in excess of the related depreciation HK$'000	Total HK$'000
At 1 January 2017	735	2,597	3,332
Charged/(credited) to profit or loss	(200)	1,258	1,058
Exchange realignment	—	182	182
At 31 December 2017	535	4,037	4,572
At 1 January 2018	**535**	**4,037**	**4,572**
Charged to profit or loss	**618**	**678**	**1,296**
Exchange realignment	**—**	**(194)**	**(194)**
At 31 December 2018	**1,153**	**4,521**	**5,674**

(c) Deferred tax assets not recognised

As at 31 December 2018, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$34,792,000 (2017: HK$32,426,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

As at 31 December 2018, the Group has also not recognised deferred tax assets in respect of loss allowance (on collective basis) of HK$1,000,000 as such amount is immaterial.

(d) Deferred tax liabilities not recognised

The PRC income tax law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on or after 1 January 2008. At 31 December 2018, temporary differences relating to the undistributed profits of a PRC subsidiary amounted to HK$34,062,000 (2017: HK$28,275,000). Deferred tax liabilities of HK$3,406,000 (2017: HK$2,828,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital HK$'000	Capital reserve HK$'000	Fair value reserve (recycling) HK$'000	Retained profits HK$'000	Total equity HK$'000
Balance at 1 January 2017	27,539	3,318	(83)	78,845	109,619
Changes in equity for 2017:					
Profit for the year	—	—	—	2,226	2,226
Other comprehensive income for the year	—	—	(14)	—	(14)
Profit and total comprehensive income for the year	—	—	(14)	2,226	2,212
Issuance of shares upon initial public offering	70,000	—	—	—	70,000
Listing expenses directly attributable to issuance of shares	(11,696)	—	—	—	(11,696)
Capital contribution from the controlling shareholder	15,000	—	—	—	15,000
Balance at 31 December 2017 *(note)*	100,843	3,318	(97)	81,071	185,135
Impact on initial application of HKFRS 9	—	—	97	(250)	(153)
Adjusted balance at 1 January 2018	**100,843**	**3,318**	**—**	**80,821**	**184,982**
Changes in equity for 2018:					
Profit and total comprehensive income for the year	**—**	**—**	**—**	**14,943**	**14,943**
Balance at 31 December 2018	**100,843**	**3,318**	**—**	**95,764**	**199,925**

Note: The Group, including the Company, has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c)(i).

24. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

(c) Share capital

(i) Issued share capital

	2018		2017	
	Number of shares	HK$'000	Number of shares	HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	800,000,000	100,843	600,000,000	27,539
Capital contribution from the controlling shareholder	—	—	—	15,000
Issuance of shares upon initial public offering	—	—	200,000,000	70,000
Listing expenses directly attributable to issuance of shares	—	—	—	(11,696)
At 31 December	800,000,000	100,843	800,000,000	100,843

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Capital contribution from the controlling shareholder

Pursuant to written resolutions passed by all the shareholders of the Company on 15 November 2017, the share capital of the Company was increased from HK$27.5 million to HK$42.5 million without issuing any shares by way of a capital contribution of HK$15,000,000 made by Mr. Lam on behalf of First Tech Inc. in cash.

24. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (Continued)

(iii) Issuance of shares upon initial public offering

In connection with the Company's listing on GEM of the Stock Exchange on 13 December 2017, 200,000,000 ordinary shares were issued by initial public offering, at price of HK$0.35 per ordinary shares. Proceeds from such issue amounted to HK$70,000,000, all of which were credited to share capital.

(d) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set in Note 2(t).

(ii) Capital reserve

Capital reserve comprises deemed contribution from the controlling shareholder in prior years.

(iii) Fair value reserve (recycling)

Prior to 1 January 2018, this reserve included in the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to retained profits upon the initial adoption of HKFRS 9 at 1 January 2018 (see Note 2(c)(i)).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

24. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management (Continued)

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. For this purpose, net debt is defined as total debt (which includes bank loans and overdrafts and obligations under finance leases) less cash and cash equivalents and pledged bank deposits. Equity comprises all components of equity.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the net debt-to-equity ratio in a balanced position. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

The Group's net debt-to-equity ratio at 31 December 2018 and 2017 was as follows:

	2018 HK$'000	2017 HK$'000
Current liabilities		
Bank loans and overdrafts	142,470	138,386
Obligations under finance leases	5,282	2,105
	147,752	140,491
Non-current liabilities		
Bank loans	30,243	41,425
Obligations under finance leases	7,045	4,893
	37,288	46,318
Total debt	185,040	186,809
Less: Cash and cash equivalents	(35,448)	(49,375)
Pledged bank deposits	(6,843)	(6,763)
Net debt	142,749	130,671
Total equity	285,732	268,607
Net debt-to-equity ratio	50%	49%

Except for the banking facilities which require the fulfilment of covenants as disclosed in Note 21, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, deposits with banks and other financial assets (including investment funds and investments in key management insurance policies). Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Except for the financial guarantees given by the Company as set out in Note 21(b), the Group does not provide any other guarantees which expose the Group to credit risk.

(i) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 23% (2017: 11.7%) of the total trade receivables were due from the Group's largest customer and 56.1% (2017: 33.9%) of the total trade receivables were due from the Group's five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

(i) *Trade receivables (Continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between the Group's different customer bases. The customer bases consist of the following groups, classified by credit risk characteristics:

Collective assessment

Group 1: Insured customers — credit loss is hedged by insurance policies and have no historical default record

Group 2: Long-term business relationship customers — always pay late but have no historical default record

Group 3: Other customers are neither in Group 1 & 2 nor credit-impaired

Individual assessment

Group 4: Credit-impaired customers

For Group 1, the Group has monitoring procedures in place to make sure that the credit limit granted to these customers maintains at an acceptable level compared to the sum insured by the insurance companies. In this regard, management considers credit risk in respect of these customer is significantly mitigated.

For Group 2, in view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers.

For Group 3, expected loss rates are based on actual loss experience over the past 3 years before 31 December 2018 or 1 January 2018 respectively. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

For Group 4, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2018, the balance of loss allowance in respect of these individually assessed receivables was HK$11,423,000 (2017: HK$17,362,000).

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

The following tables provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9):

	ECL rate	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
At 31 December 2018				
Provision on collective basis				
Group 1 customers	0%*	53,662	—	53,662
Group 2 customers	0%*	23,573	—	23,573
Group 3 customers				
— Current (not past due)	1.23%	40,838	502	40,336
— Within 1 month past due	1.47%	12,104	178	11,926
— 1 to 3 months past due	3.56%	5,992	213	5,779
— 3 to 6 months past due	40.87%	262	107	155
— Over 6 months past due	100.00%	—	—	—
		136,431	1,000	135,431
Provision on individual basis				
Group 4 customers	100%	11,423	11,423	—
		147,854	12,423	135,431

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

	ECL rate	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
At 1 January 2018				
Provision on collective basis				
Group 1 customers	0%*	57,931	—	57,931
Group 2 customers	0%*	18,752	—	18,752
Group 3 customers				
— Current (not past due)	1.38%	18,479	255	18,224
— Within 1 month past due	2.31%	6,479	150	6,329
— 1 to 3 months past due	3.18%	4,144	132	4,012
— 3 to 6 months past due	24.64%	225	55	170
— Over 6 months past due	100.00%	67	67	—
		106,077	659	105,418
Provision on individual basis				
Group 4 customers	100%	17,362	17,362	—
		123,439	18,021	105,418

* According to the historical observed default rates of expected lives of Group 1 customers and Group 2 customers, the ECL rates are immaterial.

Expected loss rates are based on actual loss experience over past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(i)(i) — policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$17,362,000 were determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	65,054
Less than 1 month past due	19,400
1 to 3 months past due	15,388
3 to 6 months past due	4,044
6 to 12 months past due	1,639
Over 1 year past due	552
	41,023
	106,077

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

Movement in the loss allowance account

Movement in loss allowance account in respect of trade receivables during the year is as follows:

	2018 HK$'000	2017 HK$'000
Balance at 31 December 2017/2016 under HKAS 39	17,362	17,041
Impact on initial application of HKFRS 9 *(Note 2(c)(i))*	659	—
Adjusted balance at 1 January 2018/2017	18,021	17,041
Impairment losses recognised during the year	407	321
Amounts written off during the year as uncollectible	(6,005)	—
Balance at 31 December 2018/2017	12,423	17,362

The following significant changes in the gross carrying amounts of trade receivables contributed to the decrease in the loss allowance during 2018:

— write-off of trade receivables with gross carrying amount of HK$6,005,000 resulted in a decrease in loss allowance of HK$6,005,000.

(ii) Pledged bank deposits and cash at banks

The Group mitigates its exposure to credit risk by placing deposits with banks with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(iii) Other financial assets including investment funds and investments in key management insurance policies

The Group entered into investment funds and investments in key management insurance policies with banks and financial institutions during the years ended 31 December 2018 and 2017. The management considers that the counterparties are the banks with high credit ratings and, therefore, the default risk is remote.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

For bank loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December 2018 HK$'000
Trade and other payables	58,961	—	—	—	58,961	58,961
Bank loans	132,233	12,501	17,873	4,472	167,079	161,563
Bank overdrafts	11,150	—	—	—	11,150	11,150
Obligations under finance leases	5,708	5,708	1,545	—	12,961	12,327
	208,052	18,209	19,418	4,472	250,151	244,001
Adjustments to present cash flow on bank loans based on lender's right to demand repayment	1,311	(1,160)	—	—	151	—
	209,363	17,049	19,418	4,472	250,302	244,001

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

	2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December 2017 HK$'000
Trade and other payables	68,660	—	—	—	68,660	68,660
Bank loans	136,903	15,638	23,801	10,109	186,451	179,811
Obligations under finance leases	2,346	2,277	2,848	—	7,471	6,998
	207,909	17,915	26,649	10,109	262,582	255,469
Adjustments to present cash flow on bank loans based on lender's right to demand repayment	4,269	(2,760)	(1,150)	—	359	—
	212,178	15,155	25,499	10,109	269,941	255,469

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank loans and overdrafts, and obligations under finance leases. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by the management is set out in note (i) below.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (Continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2018		2017	
	Effective interest rate	Amount HK$'000	Effective interest rate	Amount HK$'000
Fixed rate borrowings:				
Bank loans	—	—	3.75%	178
Obligations under finance leases	3.6%–4.5%	12,327	4.00%–4.76%	6,998
		12,327		7,176
Variable rate borrowings:				
Bank overdrafts	6.63%	11,150	—	—
Bank loans	3.13%–5.88%	161,563	2.69%–5.25%	179,633
		172,713		179,633
Total borrowings		185,040		186,809

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$1,442,000 (2017: HK$1,500,000).

The sensitivity analysis above indicates the impact on the Group's profit after tax (and retained profits) that is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis as 2017.

The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group's exposure to fair value interest risk is insignificant.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, RMB, British pound and Euro. The Group manages this risk as follows:

(i) Recognised assets and liabilities

All the Group's borrowings are denominated in either HK$ or US$. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

In respect of other financial assets and liabilities denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the reporting period end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in HK$'000) At 31 December							
	2018				2017			
	US$	RMB	British pound	Euro	US$	RMB	British pound	Euro
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Investment funds in Hong Kong	—	2,433	—	—	—	2,573	—	—
Investments in key management insurance policies	8,461	—	—	—	8,205	—	—	—
Trade and other receivables	72,146	—	2,906	134	60,373	—	1,304	361
Pledged bank deposits	—	2,881	—	—	—	2,940	—	—
Cash and cash equivalents	308	—	—	—	365	1	—	—
Trade and other payables	(16,151)	(19)	—	(29)	(14,326)	(20)	—	—
Bank loans and overdrafts	(12,384)	—	—	—	(9,908)	—	—	—
Net exposure arising from recognised assets and liabilities	52,380	5,295	2,906	105	44,709	5,494	1,304	361

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if the foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that pegged rate between the HK$ and the US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK$'000
US$	5	2,187	5	1,867
	(5)	(2,187)	(5)	(1,867)
RMB	5	221	5	1,499
	(5)	(221)	(5)	(1,499)
British Pound	5	121	5	54
	(5)	(121)	(5)	(54)
Euro	5	4	5	15
	(5)	(4)	(5)	(15)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2017.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

		Fair value measurements at 31 December 2018 categorised into		
	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements				
Assets:				
— Investment funds in Hong Kong	2,433	2,433	—	—

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value measurement (Continued)

(i) Financial assets measured at fair value (Continued)

Fair value hierarchy (Continued)

		Fair value measurements at 31 December 2017 categorised into		
	Fair value	Level 1	Level 2	Level 3
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements				
Assets:				
— Investment funds in Hong Kong	2,573	2,573	—	—

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The directors of the Company consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 2017.

26. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2018 not provided for in the financial statements were as follows:

	2018 HK$'000	2017 HK$'000
Contracted for:		
— purchase of plant and machinery	—	1,700

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

	2018 HK$'000	2017 HK$'000
Within 1 year	9,832	10,316
After 1 year but within 5 years	4,097	14,683
	13,929	24,999

The Group is the lessee in respect of the office, factory and warehouse. The leases typically run for an initial period of 2 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals. Due to the Relocation as set out in Note 34, the operating leases for the Group's Current Shenzhen Factory as defined in Note 34, are expected to be early terminated in July 2019.

27. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2018 and 2017, transactions with the following parties are considered to be related party transactions:

Name of related party	*Relationship with the Group*
Mr. Lam Sam Ming ("**Mr. Lam**")	A director and the controlling shareholder of the Company and the spouse of Ms. Yao
Ms. Yao Yuan ("**Ms. Yao**")	A director of the Company and the spouse of Mr. Lam
Prosperous Printing Co. (萬里印刷製版裝訂公司) (the "**Partnership**")	A partnership carried on by Mr. Lam and Ms. Yao

27. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the transactions and balances disclosed elsewhere in these financial statements, particulars of significant transactions between the Group and the above related parties during the years ended 31 December 2018 and 2017 are as follows:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and all of the highest paid employees as disclosed in Note 9, is as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Salaries and other emoluments	**6,086**	6,434
Retirement scheme contributions	**512**	619
	6,598	7,053

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Transactions with the Company's director

The Partnership has granted to the Company an exclusive right to use the vehicle licences, as the same may be extended or renewed from time to time, free of charge during the years ended 31 December 2018 and 2017.

The Company has granted to Mr. Lam and Ms. Yao, in their capacities as the partners of the Partnership, a non-exclusive licence to use the name "Prosperous" or "萬里" (whether used individually or together) for the Partnership free of charge.

28. CONTINGENT LIABILITIES

(a) Counterclaim from a former customer

The Group is a party to a number of legal proceedings where the Group, as plaintiff, claims for unpaid fees with respect to the Group's printing services, all of which arose during the ordinary course of the Group's business. Among such legal proceedings, the Group has been subject to a counterclaim by the Group's former customer in one legal proceeding as at 31 December 2018. Details of this counterclaim are set forth below:

The customer in France (the "**French Publisher**") counterclaims (1) approximately US$318,000 as copyright payments ("**Copyright Claim**") in respect of certain books and other printing products printed by the Group under the relevant printing arrangement, which is the underlying cause of the Copyright Claim; (2) approximately US$100,000 for alleged payments ("**Alleged Payment Claim**") to the Group or the Group's affiliate which shall partially off-set against the Group's original claim of approximately US$752,000 and Euros 180,000 (approximately equivalent to HK$7.35 million in aggregate) in respect of non-payment of printing products against the French Publisher ("**French Original Claim**"), where it alleged to have made a payment of such amount to a print broker based in Germany with the authorisation of a third party alleged to be the Group's agent; (3) approximately Euros 1,400,000 being the primary claim on the grounds of late deliveries of print products ("**Late Delivery Primary Claim**"); (4) approximately US$501,000, Euros 584,000, 2,000 Australian Dollars and 2,000 Pounds Sterling being the secondary claim ("**Late Delivery Secondary Claim**") if the Late Delivery Primary Claim fails, plus legal interests from the date of the judgement; and (5) Euros 100,000 of moral damages on the grounds for damaged reputation ("**Damaged Reputation Claim**"), where it alleged to have suffered damage to its reputation and brand as a result of late and/or faulty deliveries. The Copyright Claim and the Alleged Payment Claim were first filed on 17 December 2014 and 30 April 2016 respectively, while the Late Delivery Primary Claim, the Late Delivery Secondary Claim and the Damaged Reputation Claim were filed on 5 October 2016.

On 27 June 2018, the Paris Commercial Court in Paris, France ("**Paris Commercial Court**") issued the judgement ("**Judgement**") with respect to the following: (a) with respect to the claim by the Group against the French Publisher, the Group would be entitled to an award of approximately US$765,000 and approximately Euros 176,000 as award under the French Original Claim, (b) with respect to the counter-claim by the French Publisher against the Group, the French Publisher would be entitled to an award of approximately US$318,000 under the Copyright Claim and Euros 480,000 under the Late Delivery Primary Claim and Late Delivery Secondary Claim while the Damaged Reputation Claim was rejected, and (c) after off-set of (a) and (b), the Group would be entitled to approximately US$100,000 against the French Publisher.

28. CONTINGENT LIABILITIES (CONTINUED)

(a) Counterclaim from a former customer (Continued)

On 16 August 2018, the French Publisher lodged an appeal to Paris Court of Appeal in Paris, France ("**Paris Court of Appeal**") against the Judgment ("**Appeal Claim**"). Up to the date of issue of these financial statements, the Appeal Claim was still in progress. Based on currently available documents and the legal advice, the directors of the Company are of the opinion that the Appeal Claim is not expected to have a significant impact on the consolidated financial statements. Accordingly, no provision has been made in respect of the Appeal Claim.

(b) Claim from a former employee

In September 2018, a subsidiary of the Company received a notice that it is being sued by a former employee in respect of a personal injury purported to have been suffered during her employment with that company. If the subsidiary is found to be liable, the total expected monetary compensation may amount to less than HK$3 million (the "**Compensation**"). Under the subsidiary's employee's compensation insurance policy, it is probable that in such circumstances the subsidiary could recover the Compensation in full from the insurer. The subsidiary continues to deny any liability in respect of the injury and, based on the legal advice, the directors of the Company do not believe it probable that the court will find against them. No provision has therefore been made in respect of this claim.

29. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Plant and equipment		8,977	9,481
Investments in subsidiaries	33	187,726	187,716
Available-for-sale investments		—	2,573
Financial assets at fair value through profit or loss		2,433	—
Investment in key management insurance policies		8,343	8,176
		207,479	207,946
Current assets			
Trade and other receivables		57,634	54,077
Amounts due from subsidiaries		105,886	106,945
Pledged bank deposits		6,843	6,763
Cash and cash equivalents		28,819	47,070
Tax recoverable		—	81
		199,182	214,936
Current liabilities			
Trade and other payables		20,925	41,026
Amounts due to subsidiaries		16,372	13,735
Bank loans and overdrafts		130,558	134,169
Obligations under finance leases		3,207	2,037
Tax payable		580	—
		171,642	190,967
Net current assets		27,540	23,969
Total assets less current liabilities		235,019	231,915
Non-current liabilities			
Bank loans		30,243	41,425
Obligations under finance leases		4,318	4,893
Deferred tax liabilities		533	462
		35,094	46,780
NET ASSETS		199,925	185,135

29. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES	24		
Share capital		100,843	100,843
Reserves		99,082	84,292
TOTAL EQUITY		199,925	185,135

Approved and authorised for issue by the Board of Directors on 25 March 2019.

Lam Sam Ming	**Chan Sau Po**
Director	*Director*

30. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

31. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate controlling party of the Company to be First Tech Inc., which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

The directors regard ultimate controlling party of the Company to be Mr. Lam Sam Ming.

(Expressed in Hong Kong dollars)

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax treatments[1]
Annual Improvements to HKFRSs 2015-2017 Cycle[1]	

1 Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

HKFRS 16 "Leases"

As disclosed in Note 2(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, that is, at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (that is, where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease terms.

HKFRS 16 will primarily affect the Group's accounting as lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Notes 26(b) and 34, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$13,929,000 for office, factory and warehouse, part of which is payable between 1 and 5 years after the reporting date (majority of which relates to the Group's Current Tenancy Agreement as defined in Note 34). Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The directors of the Company believe that the Current Tenancy Agreement will be early terminated in July 2019 and will take the practical expedient not to apply this accounting model to the Current Tenancy Agreement. The Group will need to perform a more detailed analysis to determine the amounts of right-of-use assets and lease liabilities arising from operating leases on initial adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 could have a material impact on the Group's financial statements from 2019 onwards.

(Expressed in Hong Kong dollars)

33. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries. All the subsidiaries are private companies and the class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and fully paid capital/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Printplus Limited	Hong Kong/ 18 February 2004	100 shares	100%	100%	—	Trading of books and paper products
Century Sight Limited	Hong Kong/ 22 February 2008	100 shares	100%	100%	—	Investment holding
Great Wall Printing Company Limited	Hong Kong/ 23 May 2008	100 shares	100%	—	100%	Trading and production of books and paper products
Prosperous Printing (HK) Company Limited	Hong Kong/ 6 July 2018	10,000 shares	100%	100%	—	Trading of books and paper products
Prosperous Printing (Shenzhen) Co., Ltd. ("**PPSZ**") (中萬印刷（深圳）有限公司) *(Note)*	The People's Republic of China (the "**PRC**")/ 3 December 2010	RMB60,000,000 registered capital	100%	100%	—	Productions of books and paper products
Mr. Classic Inc.	British Virgin Islands ("**BVI**")/ 6 January 2016	50,000 shares of US$1 each	100%	100%	—	Investment holding
Great China Gains Inc.	BVI/ 6 January 2016	50,000 shares of US$1 each	100%	100%	—	Investment holding
Super Noble Limited	Hong Kong/ 10 March 2008	10,000 shares	100%	—	100%	Property investment
Tactful Hero Limited	Hong Kong/ 10 March 2008	1,000 shares	100%	—	100%	Property investment

Note: Prosperous Printing (Shenzhen) Company Limited is established in the PRC as a wholly foreign-owned enterprise. The English name is for identification purpose only.

34. SUBSEQUENT EVENTS

During 2018, the Group has received a notice from the relevant government authority (the "**Notice**") in the PRC that the site of its current production factory located at Shenzhen, Guangdong Province, the PRC (the "**Current Shenzhen Factory**") will have to be surrendered due to the construction of subway nearby, and accordingly the Company has been in search for a suitable production site for relocation and has identified a new production site at Shenzhen, Guangdong Province, the PRC (the "**New Shenzhen Factory**") as a site for relocation (the "**Relocation**").

On 25 March 2019, PPSZ, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Lease Agreement**") to lease the premises for its New Shenzhen Factory for a term commencing on 1 April 2019 to 30 March 2022. Under the Lease Agreement, the monthly rental for the first two years commencing from 1 April 2019 to 30 March 2021 shall be RMB388,256 (equivalent to approximately HK$451,565) and the monthly rental for the third year commencing from 1 April 2021 to 30 March 2022 shall increase to RMB407,668 (equivalent to approximately HK$474,142).

Upon completion of the Relocation, the directors of the Company is confident that the tenancy agreement (expire in May 2020) of the Current Shenzhen Factory (the "**Current Tenancy Agreement**") will be early terminated in July 2019. As at 25 March 2019, there is no confirmed timeline for the early termination of the Current Shenzhen Factory. The Company will make further announcements as and when appropriate.

Details of the Notice and Relocation are set out in the announcements of the Company dated 20 September 2018 and 25 March 2019 respectively.

Based on currently available information, the directors of the Company are of the opinion that the carrying amount of non-removable items under property, plant and equipment is insignificant. The close proximity between the Current Shenzhen Factory and the New Shenzhen Factory will lead to a relatively lower relocation cost and time. Accordingly, no provision has been made for the Relocation in the consolidated financial statements as at 31 December 2018.

Five-Year Financial Summary

	2018 HK$'000 *Note (a)*	2017 HK$'000 *Note (a)*	2016 HK$'000 *Note (b)*	2015 HK$'000 *Note (b)*	2014 HK$'000 *Note (b)*
For the year					
Revenue	**432,538**	430,717	386,043	377,750	401,218
Profit before taxation	**30,769**	12,459	18,379	15,833	18,217
Profit attributable to equity holders of the Company	**24,335**	6,530	13,365	13,550	11,547
At year end					
Total assets	**536,880**	529,943	465,104	424,386	470,669
Total liabilities	**251,148**	261,336	284,298	272,684	281,125
Total equity attributable to equity holders of the Company	**285,732**	268,607	180,806	156,161	192,331

Notes:

(a) The financial figures were extracted from the consolidated financial statements in the annual report.

(b) The financial figures were extracted from the Prospectus dated 29 November 2017.

(c) The Group adopted HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained profits and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.