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## KADER HOLDINGS COMPANY LIMITED

### 開達集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 180)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors of Kader Holdings Company Limited (the “Company”) announces that the results of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2019 together with comparative figures for the year 2018 are summarised as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000 (Note)
<b>Revenue</b>	3	<b>444,147</b>	663,688
Other (net loss)/income	4	(23,613)	2,169
Changes in inventories of finished goods and work in progress		(16,544)	(10,941)
Cost of purchase of finished goods		(8,462)	(17,595)
Raw materials and consumables used		(80,500)	(184,566)
Staff costs	5(b)	(187,898)	(220,355)
Depreciation	5(d)	(35,446)	(24,474)
Other operating expenses	5(c)	(115,533)	(152,821)
<b>(Loss)/profit from operations</b>		<b>(23,849)</b>	55,105
Finance costs	5(a)	(12,387)	(7,781)
Share of profits less losses of associates		(25,331)	25,593
Impairment loss of loans to an associate		(3,025)	–
Surplus on revaluation of investment properties		51,532	142,888
<b>(Loss)/profit before taxation</b>	5	<b>(13,060)</b>	215,805
Income tax expense	6	(981)	(34,401)
<b>(Loss)/profit for the year</b>		<b>(14,041)</b>	181,404

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS** *(Continued)**For the year ended 31 December 2019*

	<i>Note</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000 <i>(Note)</i>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(14,364)</b>	181,750
Non-controlling interests		<u>323</u>	<u>(346)</u>
<b>(Loss)/profit for the year</b>		<b><u>(14,041)</u></b>	<b><u>181,404</u></b>
<b>(Loss)/earnings per share</b>			
Basic	7(a)	<b>(1.51)¢</b>	19.12¢
Diluted	7(b)	<b><u>(1.51)¢</u></b>	<b><u>19.12¢</u></b>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Note</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000 (Note)
<b>(Loss)/profit for the year</b>		<b>(14,041)</b>	181,404
<b>Other comprehensive income for the year</b>			
<b>(after tax and reclassification adjustments)</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of HK\$Nil tax		<b>3,841</b>	2,407
Release of exchange reserve upon deregistration of subsidiaries	4	<u><b>40,673</b></u>	<u>–</u>
<b>Total comprehensive income for the year</b>		<u><b>30,473</b></u>	<u>183,811</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>30,209</b>	184,286
Non-controlling interests		<u><b>264</b></u>	<u>(475)</u>
<b>Total comprehensive income for the year</b>		<u><b>30,473</b></u>	<u>183,811</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Note</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i> <i>(Note)</i>
<b>Non-current assets</b>			
Investment properties		<b>2,007,898</b>	1,945,733
Other property, plant and equipment		<b>225,532</b>	145,327
		<b>2,233,430</b>	2,091,060
Intangible assets		<b>366</b>	399
Interest in associates		<b>82,855</b>	89,248
Other financial assets		<b>24,955</b>	13,941
Deposits and prepayments		<b>2,028</b>	14,708
Deferred tax assets		<b>9,709</b>	6,494
		<b>2,353,343</b>	2,215,850
<b>Current assets</b>			
Other financial assets		<b>5,000</b>	5,000
Trading securities		<b>7,892</b>	10,804
Inventories	8	<b>239,679</b>	260,447
Current tax recoverable		<b>7,088</b>	1,021
Loans to an associate		<b>23,709</b>	18,177
Trade and other receivables	9	<b>129,210</b>	127,169
Cash and cash equivalents		<b>107,978</b>	95,886
		<b>520,556</b>	518,504
<b>Current liabilities</b>			
Trade and other payables and contract liabilities	10	<b>119,662</b>	116,194
Bank loans		<b>323,733</b>	267,937
Lease liabilities		<b>10,194</b>	–
Current tax payable		<b>20,799</b>	26,695
		<b>474,388</b>	410,826
<b>Net current assets</b>		<b>46,168</b>	107,678
<b>Total assets less current liabilities carried forward</b>		<b>2,399,511</b>	2,323,528

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)**At 31 December 2019*

	<i>Note</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000 <i>(Note)</i>
<b>Total assets less current liabilities brought forward</b>		<b>2,399,511</b>	2,323,528
<b>Non-current liabilities</b>			
Lease liabilities		55,412	–
Deferred rental expenses		–	3,706
Rental deposits		3,615	1,025
Deferred tax liabilities		24,377	23,603
Accrued employee benefits		38	92
		<u>83,442</u>	<u>28,426</u>
<b>NET ASSETS</b>		<b><u>2,316,069</u></b>	<b><u>2,295,102</u></b>
<b>CAPITAL AND RESERVES</b>	<i>11</i>		
Share capital		95,059	95,059
Reserves		<u>2,218,284</u>	<u>2,197,581</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>2,313,343</b>	2,292,640
<b>Non-controlling interests</b>		<u>2,726</u>	<u>2,462</u>
<b>TOTAL EQUITY</b>		<b><u>2,316,069</u></b>	<b><u>2,295,102</u></b>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

Notes:

## 1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

This announcement does not comprise the consolidated financial statements for the year ended 31 December 2019 but the information herein has been extracted from the draft consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in associates.

The consolidated 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") and accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that investment properties and debts and equity instruments are stated at their fair values.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

## 2. CHANGES IN ACCOUNTING POLICIES

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

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

### **HKFRS 16, *Leases***

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

## 2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

### **HKFRS 16, Leases *(Continued)***

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and there are no adjustments to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

#### **(a) New definition of a lease**

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

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

#### **(b) Lessee accounting and transitional impact**

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

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.0%.

## 2. CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Lessee accounting and transitional impact (Continued)

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

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	<b>1 January 2019</b> <i>HK\$'000</i>
Operating lease commitments at 31 December 2018	9,359
Less: short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(118)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	<u>83,081</u>
	92,322
Less: total future interest expenses	<u>(12,647)</u>
Total lease liabilities recognised at 1 January 2019	<u><u>79,675</u></u>

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

The Group presents right-of-use assets that do not meet the definition of investment property in “other property, plant and equipment” and presents lease liabilities separately in the consolidated statement of financial position.



## 2. CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Lessee accounting and transitional impact (Continued)

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

	<b>Carrying amount at 31 December 2018 HK\$'000</b>	<b>Capitalisation of operating lease contracts HK\$'000</b>	<b>Carrying amount at 1 January 2019 HK\$'000</b>
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:</b>			
Other property, plant and equipment	145,327	75,969	221,296
<b>Total non-current assets</b>	<b>2,215,850</b>	<b>75,969</b>	<b>2,291,819</b>
Lease liabilities (current)	–	9,893	9,893
<b>Current liabilities</b>	<b>410,826</b>	<b>9,893</b>	<b>420,719</b>
<b>Net current assets</b>	<b>107,678</b>	<b>(9,893)</b>	<b>97,785</b>
<b>Total assets less current liabilities</b>	<b>2,323,528</b>	<b>66,076</b>	<b>2,389,604</b>
Lease liabilities (non-current)	–	69,782	69,782
Deferred rental expenses	3,706	(3,706)	–
<b>Total non-current liabilities</b>	<b>28,426</b>	<b>66,076</b>	<b>94,502</b>
<b>Net assets</b>	<b>2,295,102</b>	<b>–</b>	<b>2,295,102</b>

## 2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (b) Lessee accounting and transitional impact *(Continued)*

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	<b>31 December 2019 HK\$'000</b>	1 January 2019 HK\$'000
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost in Hong Kong, with remaining lease term between 10 and 50 years	<b>52,972</b>	54,923
Other properties leased for own use, carried at depreciated cost	<b>60,037</b>	75,100
Other items of plant and equipment, carried at depreciated cost	<u>856</u>	<u>869</u>
	<b>113,865</b>	130,892
Ownership interests in leasehold investment property, carried at fair value, with remaining lease term of between 10 and 50 years	<u>2,007,898</u>	<u>1,945,733</u>
	<b>2,121,763</b>	<b>2,076,625</b>

## 2. CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Lessee accounting and transitional impact (Continued)

The remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 are as follows:

	At 31 December 2019		At 1 January 2019 (Note)	
	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	<u>10,194</u>	<u>12,592</u>	9,893	12,900
After 1 year but within 2 years	10,688	12,668	10,320	12,924
After 2 years but within 5 years	27,379	30,899	32,140	37,337
After 5 years	<u>17,345</u>	<u>18,096</u>	<u>27,322</u>	<u>29,161</u>
	<u>55,412</u>	<u>61,663</u>	<u>69,782</u>	<u>79,422</u>
	<u>65,606</u>	<u>74,255</u>	<u>79,675</u>	92,322
Less: total future interest expenses		<u>(8,649)</u>		<u>(12,647)</u>
Present value of lease liabilities		<u>65,606</u>		<u>79,675</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

### (c) Impact on the financial result, segment results and cash flows of the Group

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

## 2. CHANGES IN ACCOUNTING POLICIES (Continued)

### (c) Impact on the financial result, segment results and cash flows of the Group (Continued)

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

## 3. REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Toys and model trains: The manufacture and sale of plastic, electronic and stuffed toys and model trains. These products are manufactured in the Group's manufacturing facilities located in Mainland China.

Property investment: The leasing of office premises and industrial building to generate rental income and to gain from the appreciation in the properties' value in the long term.

Investment holding: The investment in securities.

### (a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by significant category of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
– Sales of goods	403,809	612,282
<b>Revenue from other sources</b>		
– Gross rentals from investment properties that the lease payments are fixed	40,338	51,406
	<u>444,147</u>	<u>663,688</u>

### 3. REVENUE AND SEGMENT REPORTING *(Continued)*

#### (a) **Disaggregation of revenue** *(Continued)*

The Group's customer base is diversified and includes one (2018: one) customer with whom transactions have exceeded 10% of the Group's revenue. In 2019, revenue from sales of toys and model trains to this customer (2018: one), including sales to entities which are known to the Group to be under common control of this customer, amounted to approximately HK\$128,555,000 (2018: HK\$336,077,000) and arose in the North America (2018: North America) geographical region in which the toys and model trains division is active.

#### (b) **Segment results, assets and liabilities**

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of intangible assets, interest in associates, other financial assets, trading securities, deferred tax assets, current tax recoverable, cash and cash equivalents, loans to an associate and other corporate assets. Segment liabilities include all liabilities with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

### 3. REVENUE AND SEGMENT REPORTING (Continued)

#### (b) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	Toys and model trains		Property investment		Investment holding		Total	
	2019 HK\$'000	2018 HK\$'000 (Note)	2019 HK\$'000	2018 HK\$'000 (Note)	2019 HK\$'000	2018 HK\$'000 (Note)	2019 HK\$'000	2018 HK\$'000 (Note)
Revenue from external customers	403,809	612,282	40,338	51,406	-	-	444,147	663,688
Inter-segment revenue	-	-	1,858	1,195	-	-	1,858	1,195
<b>Reportable segment revenue</b>	<b>403,809</b>	<b>612,282</b>	<b>42,196</b>	<b>52,601</b>	<b>-</b>	<b>-</b>	<b>446,005</b>	<b>664,883</b>
Reportable segment profit/(loss) (adjusted EBITDA)	10,288	37,872	28,779	40,566	(3,824)	(385)	35,243	78,053
Interest income	145	76	-	26	2,056	1,739	2,201	1,841
Interest expenses	(12,387)	(7,781)	-	-	-	-	(12,387)	(7,781)
Depreciation and amortisation for the year	(35,371)	(25,064)	(9)	(53)	(99)	-	(35,479)	(25,117)
Impairment of property, plant and equipment	-	-	(27)	(317)	-	-	(27)	(317)
<b>Reportable segment assets</b>	<b>584,877</b>	<b>544,628</b>	<b>2,030,291</b>	<b>1,960,760</b>	<b>328,691</b>	<b>351,417</b>	<b>2,943,859</b>	<b>2,856,805</b>
Additions to non-current segment assets during the year	32,977	52,251	22,020	-	661	-	55,658	52,251
<b>Reportable segment liabilities</b>	<b>783,943</b>	<b>711,044</b>	<b>43,187</b>	<b>34,385</b>	<b>25,036</b>	<b>6,946</b>	<b>852,166</b>	<b>752,375</b>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

### 3. REVENUE AND SEGMENT REPORTING (Continued)

#### (c) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> <i>(Note)</i>
<b>Revenue</b>		
Reportable segment revenue	446,005	664,883
Elimination of inter-segment revenue	<u>(1,858)</u>	<u>(1,195)</u>
Consolidated revenue	<u><u>444,147</u></u>	<u><u>663,688</u></u>
<b>Profit</b>		
Reportable segment profit	35,243	78,053
Elimination of inter-segment profit	<u>–</u>	<u>–</u>
Reportable segment profit derived from the Group's external customers	35,243	78,053
Other (net loss)/income	(23,613)	2,169
Depreciation and amortisation	(35,479)	(25,117)
Finance costs	(12,387)	(7,781)
Share of profits less losses of associates	(25,331)	25,593
Impairment loss on loans to associates	(3,025)	–
Surplus on revaluation of investment properties	<u>51,532</u>	<u>142,888</u>
Consolidated (loss)/profit before taxation	<u><u>(13,060)</u></u>	<u><u>215,805</u></u>
<b>Assets</b>		
Reportable segment assets	2,943,859	2,856,805
Elimination of inter-segment receivables	<u>(339,512)</u>	<u>(363,421)</u>
	2,604,347	2,493,384
Intangible assets	366	399
Interest in associates	82,855	89,248
Loans to an associate	23,709	18,177
Other financial assets	29,955	18,941
Trading securities	7,892	10,804
Current tax recoverable	7,088	1,021
Deferred tax assets	9,709	6,494
Cash and cash equivalents	<u>107,978</u>	<u>95,886</u>
Consolidated total assets	<u><u>2,873,899</u></u>	<u><u>2,734,354</u></u>
<b>Liabilities</b>		
Reportable segment liabilities	852,166	752,375
Elimination of inter-segment payables	<u>(339,512)</u>	<u>(363,421)</u>
	512,654	388,954
Current tax payable	20,799	26,695
Deferred tax liabilities	<u>24,377</u>	<u>23,603</u>
Consolidated total liabilities	<u><u>557,830</u></u>	<u><u>439,252</u></u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

### 3. REVENUE AND SEGMENT REPORTING (Continued)

#### (d) Geographic information

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, non-current deposits and prepayments and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. 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, the location of the operation to which they are allocated, in the case of intangible assets and the location of operations, in the case of interest in associates.

	Revenue from external customers		Specified non-current assets	
	2019 HK\$'000	2018 HK\$'000 (Note)	2019 HK\$'000	2018 HK\$'000 (Note)
Hong Kong (place of domicile)	<u>41,104</u>	52,145	<u>2,078,445</u>	2,048,111
Mainland China	2,232	1,608	84,046	36,288
North America	262,866	463,485	111,758	95,169
Europe	137,179	142,295	33,044	10,443
Others	<u>766</u>	<u>4,155</u>	<u>11,386</u>	<u>5,404</u>
	<u>403,043</u>	<u>611,543</u>	<u>240,234</u>	<u>147,304</u>
	<u>444,147</u>	<u>663,688</u>	<u>2,318,679</u>	<u>2,195,415</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.



#### 4. OTHER (NET LOSS)/INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> <i>(Note)</i>
Interest income from loans to an associate	1,593	1,393
Other interest income	<u>608</u>	<u>448</u>
	<b>2,201</b>	1,841
Air conditioning, management and maintenance service charges from tenants	4,780	6,705
Gain on lease modifications	102	–
Material charges	478	320
Written back of trade and other payables	3,455	–
Net gain on disposal of other property, plant and equipment	678	479
Net exchange loss	(1,222)	(8,173)
Net realised and unrealised gain/(loss) on trading securities	1,223	(1,832)
Net realised and unrealised gain/(loss) on other financial assets	1,899	(2,972)
Loss on deregistration of subsidiaries*	(40,673)	–
Others	<u>3,466</u>	<u>5,801</u>
	<u><b>(23,613)</b></u>	<u><b>2,169</b></u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

\* Upon the deregistration of Sanda Kan Industrial (Dongguan) Company Limited and Sanda Kan Technology (Shenzhen) Company Limited, subsidiaries of the Group, which had no business activities conducted and did not have any assets and liabilities at the time of deregistration, the corresponding exchange reserve in relation to these subsidiaries of HK\$40,673,000 was released and recognised in profit or loss for the year.

## 5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> <i>(Note)</i>
<b>(a) Finance costs</b>		
Interest on bank loans and other borrowings	9,406	7,781
Interest on lease liabilities (note)	<u>2,981</u>	<u>–</u>
	<u><b>12,387</b></u>	<u><b>7,781</b></u>
<b>(b) Staff costs</b>		
Salaries, wages and other benefits	169,693	199,378
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK\$9,000 (2018: HK\$ Nil)	<u>18,205</u>	<u>20,977</u>
	<u><b>187,898</b></u>	<u><b>220,355</b></u>
<b>(c) Other operating expenses</b>		
Other operating expenses for the year included:		
Amortisation of intangible assets	33	643
Addition/(reversal) of impairment losses of		
– property, plant and equipment	27	317
– trade debtors	(198)	(882)
Auditors' remuneration		
– audit services	4,473	4,483
– tax services	262	66
– other services	–	502
Advertising and promotion	9,663	14,193
Fuel, electricity and water	12,154	17,917
Tools and consumables	4,275	5,374
Repair and maintenance	5,170	7,208
Subcontracting fee	26,703	25,927
Transportation and travelling	<u>11,151</u>	<u>13,251</u>

5. (LOSS)/PROFIT BEFORE TAXATION (Continued)

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> <i>(Note)</i>
<b>(d) Other items</b>		
Depreciation		
– owned assets (note)	22,172	24,474
– right-of-use assets (note)	13,274	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 (included in staff cost and other operating expenses) (note)		
– rental of land and buildings	–	23,256
– other rentals	–	119
Cost of inventories	272,303	417,153
Rental receivable from investment properties less direct outgoings of HK\$5,880,000 (2018: HK\$4,551,000)	<u>(34,458)</u>	<u>(46,855)</u>

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

Cost of inventories includes HK\$105,151,000 (2018: HK\$131,492,000) relating to staff costs, depreciation charges, impairment loss in respect of property, plant and equipment and lease expenses, which amount is also included in the respective total amounts disclosed separately above and in the consolidated statement of profit or loss for each of these types of expenses.

## 6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss represents:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	208	17,346
Over-provision in respect of prior years	<u>(20)</u>	<u>(1,288)</u>
	----- 188	----- 16,058
<b>Current tax – Outside Hong Kong</b>		
Provision for the year	2,300	9,074
Under-provision in respect of prior years	<u>975</u>	<u>432</u>
	----- 3,275	----- 9,506
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(2,482)</u>	<u>8,837</u>
	----- <u>981</u>	----- <u>34,401</u>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

The Corporate Income Tax (“CIT”) rate applicable to subsidiaries registered in the People’s Republic of China (“PRC”) is 25% (2018: 25%).

Taxation for other subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporation tax rates applicable to the Group’s operations in the United Kingdom (the “UK”) and the United States (“the US”) are 19% (2018: 19%) and 21% (2018: 21%) respectively.

## 6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
(Loss)/profit before taxation	<u>(13,060)</u>	<u>215,805</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	10,309	27,774
Tax effect of non-deductible expenses	14,289	29,913
Tax effect of non-taxable income	(29,727)	(26,160)
Tax effect of previously unrecognised tax losses utilised	(25)	(271)
Tax effect of unused tax losses not recognised	4,789	4,001
Tax effect of other temporary difference not recognised	138	–
Under/(over)-provision in prior years	955	(856)
Others	<u>253</u>	<u>–</u>
Actual tax expense	<u>981</u>	<u>34,401</u>

## 7. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$14,364,000 (2018: profit of HK\$181,750,000) and the weighted average of 950,588,000 ordinary shares (2018: 950,588,000 ordinary shares) in issue during the year.

### (b) Diluted (loss)/earnings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2019 and 2018. Accordingly, the diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share for both 2019 and 2018.

## 8. INVENTORIES

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Carrying amount of inventories sold	281,552	426,347
Write down of inventories	–	2,708
Reversal of write-down of inventories	<u>(9,249)</u>	<u>(11,902)</u>
	<u><u>272,303</u></u>	<u><u>417,153</u></u>

The reversal of write-down of inventories made in the prior year arose upon subsequent sale of these inventories.

## 9. TRADE AND OTHER RECEIVABLES

As at the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	44,732	37,460
1 to 3 months	32,899	48,832
3 to 12 months	18,335	7,717
Over 12 months	<u>351</u>	<u>1,225</u>
	<u><u>96,317</u></u>	<u><u>95,234</u></u>

## 10. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Included in trade and other payables and contract liabilities are trade creditors with the following ageing analysis, based on the invoice date, as of the end of reporting period:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	8,264	13,573
Over 1 month but within 3 months	6,315	14,517
Over 3 months but within 6 months	1,833	4,192
Over 6 months	<u>598</u>	<u>904</u>
	<u><u>17,010</u></u>	<u><u>33,186</u></u>

## 11. CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

#### (i) Dividends payable to equity shareholders of the Company attributable to the year

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK Nil cents per ordinary share (2018: HK1.0 cent per ordinary share)	<u>–</u>	<u>9,506</u>

#### (ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.0 cent per share (2018: HK2.0 cents per share)	<u>9,506</u>	<u>19,012</u>

### (b) Issued share capital

	2019		2018	
	Number of shares '000	<i>HK\$'000</i>	Number of shares '000	<i>HK\$'000</i>
<b>Authorised:</b>				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
<b>Ordinary shares, issued and fully paid:</b>				
At the beginning and the end of the year	<u>950,588</u>	<u>95,059</u>	<u>950,588</u>	<u>95,059</u>

### (c) Share premium

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda.

## **BUSINESS REVIEW**

The keen competition, United States-China trade war and Brexit have negative impact on the results of the Group for 2019. The outbreak of the new coronavirus disease has notable effects on the economic activities. The Group believes that it will take some time to recover to normal and will adversely affect the Group's result for 2020. To cope with the unfavourable conditions, the Group will diversify its businesses, implement various measures to increase efficiency and strengthen the cost control measures.

### **Toys and Model Trains**

For the financial year ended 31 December 2019, the revenue was approximately HK\$403.81 million, representing a decrease of approximately 34.05% as compared to last year.

The Group will continue to explore new sales opportunities and manufacture high quality products with competitive prices to sustain its business.

### **Property Investment**

For the financial year ended 31 December 2019, the Group's rental income amounted to approximately HK\$40.34 million, representing a decrease of approximately 21.53% over the previous year. In addition, the Group recorded valuation gains of approximately HK\$51.53 million on its investment properties for the year, as compared to last year's valuation gains of approximately HK\$142.89 million.

During the year under review, the occupancy rate of its investment properties is approximately 73% (2018: approximately 82%).

## **RISKS AND UNCERTAINTIES**

The Group's financial position and results of operations may be affected by a number of risks and uncertainties pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group:

### **Business Risk**

Performance of the Group's core business will be affected by various factors, including but not limited to economic conditions which would not be completely mitigated even with strict operational procedures.

### **Interest Rate Risk**

The Group's interest rate risk arises primarily from bank borrowings. The Group analyses its interest rate exposure on a dynamic basis and manages this risk in a cost-effective manner.



## **Liquidity risk**

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding. In managing the liquidity risk, the Group monitors the cash flows and will negotiate with banks to increase the banking facilities, if necessary.

## **Customer risk**

The sales to one of the Group's customers represented approximately 32% of the Group's sales in 2019. The Group has endeavoured to diversify its customer base and provided quality products and services to the customers to maintain good relationship with them so as to mitigate the customer risk.

## **Foreign Exchange Rate Risk**

Major assets, liabilities and transactions of the Group are denominated in Hong Kong dollars, United States dollars, Sterling Pounds ("GBP"), Renminbi Yuan ("RMB"), Japanese Yen ("JPY") and Euro ("EUR"). As such, the Group faces a certain degree of exchange rate risk mainly arising from GBP, RMB, JPY and EUR denominated transactions for which the exchange rate volatility is relatively high.

## **ENVIRONMENTAL POLICIES AND PERFORMANCE**

The Group has established the Environmental, Health and Safety Management System and Group Environmental Policy effectively address and manage environmental issues during the operation. Our Environmental, Health and Safety Committee monitors the Group's overall performance in relation to environmental protection at all of our production facilities by regular inspections. We strive to minimise our impacts on the environment by building a green corporate culture, exercising clean production, improving corporate environment, and utilizing resources sustainably and efficiently. Practical initiatives include waste separation, in-house air emission treatment facility, in-house wastewater treatment facility, energy efficiency enhancement and green office practices.

Looking ahead, we will continually raise our environmental performance by reviewing the effectiveness of existing policies and the key performance indicators. For more details, please refer to the "Environmental, Social and Governance Report" section in the annual report.

## **COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS**

During the period from 1 January 2019 to 31 December 2019, the Group was not aware of any material non-compliance with the applicable environmental laws and regulations that have a significant impact on the Group.

## **KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS**

The Group has been maintaining long-term trusting relationships with its employees, customers and suppliers:

### ***Employees:***

The Group recognises employees as the most important asset to drive our business performance. To build and maintain a committed and innovative workforce, we put emphasis on safeguarding their health and safety, offering competitive remuneration, providing development opportunities and maintaining a pleasant workplace. All employees are treated in a fair and equal manner, with no discrimination on any forms of differences that are unrelated to job requirements. We also promote work-life balance through arranging various recreational activities to let our people relax from work and to build a sense of belonging.

### ***Customers:***

The Group is devoted in providing top quality products and delivering excellent customer experience. Guided by the Group Quality Policy, we strive to achieve the highest customer satisfaction through continuous improvement, as well as to produce quality products and deliver them on time to our customers. Quality inspections are conducted throughout the entire production cycle, from raw material to final product. Regarding privacy matters, the Group attaches great importance to the protection of confidential data of our customers such that only authorized personnel are permitted to access those data. We also welcome our customers to provide feedbacks on our products or services through the customer service channels.

### ***Suppliers:***

We understand that it is essential for our supply chain to align with our corporate social responsibility commitments and thus we select our suppliers carefully. All potential suppliers are required to provide relevant compliance certificates in order to be qualified on the approved vendor list. In addition to quality considerations, we also consider other factors such as their performances on anti-corruption, occupational health and safety, product safety, labor standards and environmental protection.

For more details, please refer to the “Environmental, Social and Governance Report” section in the annual report.

## **FINANCIAL REVIEW**

### **Results**

The Board announces that the Group's revenue for the financial year ended 31 December 2019 amounted to approximately HK\$444.15 million, representing a decrease of approximately 33.08% over that reported last year and the loss from operations for 2019 amounted to approximately HK\$23.85 million as compared to last year's profit from operations of approximately HK\$55.11 million. The Group's loss attributable to equity shareholders for the financial year ended 31 December 2019 was approximately HK\$14.36 million, which included surplus on revaluation of investment properties amounting to approximately HK\$51.53 million, as compared to last year's profit attributable to equity shareholders of approximately HK\$181.75 million which included surplus on revaluation of investment properties of approximately HK\$142.89 million.

### **Liquidity and Financial Resources**

As at 31 December 2019, the Group's net asset value per share was approximately HK\$2.44 (2018: approximately HK\$2.41). The Group had net current assets of approximately HK\$46.17 million (2018: approximately HK\$107.68 million). Total bank borrowings were approximately HK\$323.73 million (2018: approximately HK\$267.94 million) while the secured total banking facilities were approximately HK\$741.65 million (2018: approximately HK\$801.05 million). Included in total bank borrowings were revolving loans of approximately HK\$310.06 million (2018: approximately HK\$195.00 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total bank borrowings compared to the total equity, was approximately 13.98% (2018: approximately 11.67%). The majority of borrowings are on floating interest rate terms. The Group will negotiate with banks to increase the banking facilities for working capital needs, if necessary.

### **Capital Structure**

During the year, there were no changes in the Company's share capital.

### **Charges on Group Assets**

As at 31 December 2019, investment properties and certain leasehold land and buildings of the Group with a net book value of approximately HK\$1,909.35 million (2018: approximately HK\$1,856.48 million) were mortgaged to various banks to secure the banking facilities granted to the Group.

### **Material Acquisitions and Disposals**

There were no material acquisitions and disposals during the year ended 31 December 2019.

### **Contingent Liabilities**

As at 31 December 2019, the Group did not have any significant contingent liabilities.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2019, the Group employed 1,303 (2018: 1,678) full time management, administrative and production staff in Hong Kong Special Administrative Region (“HKSAR”), Mainland China, the United States and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plants while the number of management and administrative staff remains stable. The staff costs for the year ended 31 December 2019 amounted to approximately HK\$187.90 million (2018: approximately HK\$220.36 million). The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

## **PROSPECTS**

The economic environment in 2020 will continue to be challenged by major domestic and international events including trade frictions between China and the United States, and the new coronavirus epidemic which in turn adversely affects the general business environment. The Group will diversify its businesses, explore sales opportunities, raise production efficiency and strengthen the cost control measures in order to sustain its businesses. In addition, the Group has obtained the approval from the Government of the HKSAR for revitalization of Kader Building. The whole processes are expected to be completed within 3 years. The revitalization of Kader Building will enhance the Group’s source of revenue and profitability.

## **DIVIDEND**

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: HK1.0 cent per ordinary share).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 29 May 2020 to Wednesday, 3 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 28 May 2020.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **CORPORATE GOVERNANCE PRACTICES**

The Board sets its corporate governance procedure and duties pursuant to the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and it accordingly reviews and monitors the training and continuous development in profession of directors and senior management and its policies and practices in compliance with relevant laws and regulatory requirements. The Company has adopted and applied a corporate governance policy. During the reporting year, the Group has complied with all code provisions set out in the CG Code, except for the deviation from CG Code A.2.1 as described below:

Under CG Code A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Kenneth Ting Woo-shou has the combined role of Chairman and Managing Director. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as non-executive director and independent non-executive directors ("INEDs") form the majority of the Board, with five out of eight of the directors of the Company being non-executive director and INEDs. The Board believes the appointment of Mr. Kenneth Ting Woo-shou to the posts of Chairman and Managing Director is beneficial to the Group as he has considerable industry experience.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company's directors and relevant employees who are or may be in possession of unpublished inside information. Based on specific enquiries made, all directors have confirmed that they have complied with the Model Code throughout the year.

## AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the key accounting policies and discussed auditing, internal controls and financial reporting matters, including a review of the annual results for the year ended 31 December 2019.

By order of the Board  
**Kenneth Ting Woo-shou**  
*Chairman*

Hong Kong, 27 March 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Kenneth Ting Woo-shou, SBS, JP (Chairman and Managing Director), Mrs. Nancy Ting Wang Wan-sun and Mr. Ivan Ting Tien-li; the non-executive director of the Company is Mr. Bernie Ting Wai-cheung; and the independent non-executive directors of the Company are Mr. Floyd Chan Tsoi-yin, Mr. Andrew Yao Cho-fai, JP, Mr. Desmond Chum Kwan-yue and Ms. Sabrina Chao Sih-ming.*