LION ROCK GROUP LIMITED

獅子山集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1127)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

AUDITED RESULTS

The board of directors (the "Board") of Lion Rock Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	3	1,665,369	1,582,725
Direct operating costs		(1,192,284)	(1,137,197)
Gross profit		473,085	445,528
Other income	5	87,267	52,280
Selling and distribution costs		(211,534)	(196,203)
Administrative expenses		(108,169)	(95,958)
Other expenses		(33,711)	(2,963)
Impairment of goodwill		-	(1,294)
Share of profit of associate		11,266	-
Finance costs	6	(3,988)	(2,870)
Profit before income tax	7	214,216	198,520
Income tax expense	8	(29,972)	(39,072)
Profit for the year		184,244	159,448

* *For identification purpose only*

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)
For the year ended 31 December 2018 (Continued)

	Notes	2018 HK$'000	2017 HK$'000
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Loss in fair value of equity instruments at fair value through other comprehensive income		(12,551)	-
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/ gain on translation of financial statements of foreign operations		(29,411)	36,176
Exchange reserve released upon deregistration/ disposal of a subsidiary		(28,311)	557
Changes in fair value of available-for-sale financial assets		-	5,100
Share of other comprehensive income of associate		(3,806)	-
Other comprehensive income for the year, net of tax		(74,079)	41,833
Total comprehensive income for the year		110,165	201,281
Profit for the year attributable to:			
Owners of the Company		169,395	147,668
Non-controlling interests		14,849	11,780
		184,244	159,448
Total comprehensive income attributable to:			
Owners of the Company		105,733	185,952
Non-controlling interests		4,432	15,329
		110,165	201,281
Earnings per share for profit attributable to owners of the Company during the year	10		
Basic		HK22.00 cents	HK19.18 cents
Diluted		N/A	N/A

Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	143,369	112,240
Deposits for acquisition of property, plant and equipment		39,645	11,013
Intangible assets	12	180,952	192,643
Available-for-sale financial assets		-	47,835
Interest in associate	13	56,168	-
Loan to associate	13	53,600	-
Other non-current assets		2,804	3,680
Deferred tax assets		34,332	36,190
		510,870	403,601
Current assets			
Inventories	14	179,818	131,441
Trade and other receivables and deposits	15	533,956	475,387
Financial assets at fair value through profit or loss	16	673	-
Tax recoverable		-	192
Pledged deposit		5,808	-
Cash and bank balances		508,321	424,217
		1,228,576	1,031,237
Current liabilities			
Trade and other payables	17	234,498	255,692
Bank borrowings	18	286,040	69,365
Finance lease liabilities	19	605	337
Provisions		20,917	21,912
Financial liabilities at fair value through profit or loss	16	-	3,810
Provision for taxation		9,265	-
		551,325	351,116
Net current assets		677,251	680,121
Total assets less current liabilities		1,188,121	1,083,722
Non-current liabilities			
Financial liabilities arising from put option		14,588	14,198
Provisions		3,759	11,641
Finance lease liabilities	19	1,935	1,196
Deferred tax liabilities		5,771	7,865
		26,053	34,900
Net assets		1,162,068	1,048,822
EQUITY			
Share capital		7,700	7,700
Reserves		1,036,738	979,089
Equity attributable to owners of the Company		1,044,438	986,789
Non-controlling interests		117,630	62,033
Total equity		1,162,068	1,048,822

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Attributable to owners of the Company														Non-controlling interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000	Contributed surplus HK$'000	Available-for-sale financial assets reserve HK$'000	Put option reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Employee compensation reserve HK$'000	Share award scheme reserve HK$'000	Proposed final and special dividend HK$'000	Retained earnings HK$'000	Total HK$'000	HK$'000	HK$'000
Balance as at 1 January 2017	7,700	173,078	(51,179)	(136,875)	310,125	-	-	-	(12,380)	-	(5)	46,200	553,237	889,901	55,838	945,739
2016 final dividend paid (Note 9)	-	-	-	-	-	-	-	-	-	-	-	(34,650)	-	(34,650)	-	(34,650)
2016 special dividend paid (Note 9)	-	-	-	-	-	-	-	-	-	-	-	(11,550)	-	(11,550)	-	(11,550)
2017 interim dividend paid (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	(23,100)	(23,100)	-	(23,100)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,837	8,837
Deemed acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(4,776)	-	-	-	-	(4,776)	(14,515)	(19,291)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,945)	(4,945)
Appropriation to statutory reserve	-	-	-	-	-	-	-	737	-	-	-	-	(737)	-	-	-
Put option granted to non-controlling interests of a subsidiary	-	-	-	-	-	-	(13,906)	-	-	-	-	-	-	(13,906)	-	(13,906)
Equity-settled share based payment expenses	-	-	-	-	-	-	-	-	-	407	-	-	-	407	-	407
Exercise of share options in a subsidiary	-	-	-	-	-	-	-	-	(1,489)	-	-	-	-	(1,489)	1,489	-
Transactions with owners	-	-	-	-	-	-	(13,906)	737	(6,265)	407	-	(46,200)	(23,837)	(89,064)	(9,134)	(98,198)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	147,668	147,668	11,780	159,448
Other comprehensive income																
Currency translation	-	-	32,627	-	-	-	-	-	-	-	-	-	-	32,627	3,549	36,176
Release upon disposal of a subsidiary	-	-	557	-	-	-	-	-	-	-	-	-	-	557	-	557
Available-for-sale financial assets	-	-	-	-	-	5,100	-	-	-	-	-	-	-	5,100	-	5,100
Total comprehensive income for the year	-	-	33,184	-	-	5,100	-	-	-	-	-	-	147,668	185,952	15,329	201,281
2017 proposed final dividend (Note 9)	-	-	-	-	-	-	-	-	-	-	-	50,050	(50,050)	-	-	-
Balance at 31 December 2017	7,700	173,078	(17,995)	(136,875)	310,125	5,100	(13,906)	737	(18,645)	407	(5)	50,050	627,018	986,789	62,033	1,048,822

Consolidated Statement of Changes in Equity (Continued)
For the year ended 31 December 2018 (Continued)

	Attributable to owners of the Company															Non-controlling interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000	Contributed surplus HK$'000	Available -for-sale financial assets reserve HK$'000	FVOCI reserve HK$'000	Put option reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Employee compensation reserve HK$'000	Share award scheme reserve HK$'000	Proposed final and special dividend HK$'000	Retained earnings HK$'000	Total HK$'000	HK$'000	HK$'000
Balance as at 1 January 2018																	
- As originally presented	7,700	173,078	(17,995)	(136,875)	310,125	5,100	-	(13,906)	737	(18,645)	407	(5)	50,050	627,018	986,789	62,033	1,048,822
- Initial application of HKFRS 9 (note 2)	-	-	-	-	-	(5,100)	5,100	-	-	-	-	-	-	-	-	-	-
	7,700	173,078	(17,995)	(136,875)	310,125	-	5,100	(13,906)	737	(18,645)	407	(5)	50,050	627,018	986,789	62,033	1,048,822
2017 final dividend paid (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	(50,050)	-	(50,050)	-	(50,050)
2018 interim dividend paid (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,100)	(23,100)	-	(23,100)
Deemed disposal of interests in a subsidiary (Note 20)	-	-	-	-	-	-	-	-	-	28,062	-	-	-	-	28,062	66,196	94,258
Deemed acquisition of interests in a subsidiary (Note20)	-	-	-	-	-	-	-	-	-	(2,996)	-	-	-	-	(2,996)	10,896	7,900
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,927)	(25,927)
Release of FVOCI reserve as a result of obtaining significant influence over the investee	-	-	-	-	-	-	7,451	-	-	-	-	-	-	(7,451)	-	-	-
Call option cancelled	-	-	-	-	-	-	-	-	-	-	(407)	-	-	407	-	-	-
Transactions with owners	-	-	-	-	-	-	7,451	-	-	25,066	(407)	-	(50,050)	(30,144)	(48,084)	51,165	3,081
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	169,395	169,395	14,849	184,244
Other comprehensive income																	
Currency translation	-	-	(25,900)	-	-	-	-	-	-	-	-	-	-	-	(25,900)	(3,511)	(29,411)
Release upon de-registration of a subsidiary	-	-	(21,405)	-	-	-	-	-	-	-	-	-	-	-	(21,405)	(6,906)	(28,311)
Changes in fair value of equity instruments at FVOCI	-	-	-	-	-	-	(12,551)	-	-	-	-	-	-	-	(12,551)	-	(12,551)
Share of other comprehensive income of associate	-	-	(3,242)	-	-	-	-	-	-	-	-	-	-	(564)	(3,806)	-	(3,806)
Total comprehensive income for the year	-	-	(50,547)	-	-	-	(12,551)	-	-	-	-	-	-	168,831	105,733	4,432	110,165
2018 proposed final dividend (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	53,900	(53,900)	-	-	-
Balance at 31 December 2018	7,700	173,078	(68,542)	(136,875)	310,125	-	-	(13,906)	737	6,421	-	(5)	53,900	711,805	1,044,438	117,630	1,162,068

1. General information

Lion Rock Group Limited (the "Company") was incorporated in Bermuda under the Bermuda Companies Act as an exempted limited liability company. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is 26/F, 625 King's Road, North Point, Hong Kong. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") in 2011.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK.

2. Adoption of Hong Kong Financial Reporting Standards

2.1 Adoption of new or amended HKFRSs

During the year, the Group has adopted all the new or amended HKFRSs which are first effective for the reporting year and relevant to the Group as follows.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

Except as explained below, the adoption of these new or amended HKFRSs did not result in material changes to the Group's accounting policies.

(A) HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.1 Adoption of new or amended HKFRSs (continued)

(A) HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

As of 1 January 2018, the Group's investment in listed equity investments were reclassified from available-for-sale financial assets to FVOCI. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as measured at FVOCI. As a result, as at 1 January 2018, the balance of HK$47,835,000 was reclassified from available-for-sale financial assets at fair value to FVOCI and the related reserve balance of HK$5,100,000 was reclassified from available-for-sale assets reserve to FVOCI reserve on 1 January 2018.

Movements of the related reserves are set out in table form, as follows:

	Available-for-sale financial assets reserve HK$'000	FVOCI reserve HK$'000
As at 31 December 2017	5,100	-
Reclassification of reserves upon adoption of HKFRS 9	(5,100)	5,100
Restated as at 1 January 2018	-	5,100

FVOCI represents financial assets at fair value through other comprehensive income.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost; (ii) FVOCI; or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion or "SPPI criterion"). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.1 Adoption of new or amended HKFRSs (continued)

(A) HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using effective interest rate method. Interest income, foreign exchange gain and loss and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gain and loss are recognised in other comprehensive income and are not reclassified to profit or loss.

(ii) Impairment of financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, loan to associate, and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.1 Adoption of new or amended HKFRSs (continued)

(A) HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other receivables, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be credit-impaired when: (1) 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 (2) the financial asset is more than 90 days past due.

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "ECL model". HKFRS 9 requires the Group to recognise ECL for its trade receivables, financial assets at amortised cost and contract assets earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but impairment is immaterial for the current period.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.1 Adoption of new or amended HKFRSs (continued)

(A) HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Impact of the ECL model

The adoption of the ECL model did not result in material impact to the Group's trade and other receivables.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

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

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.1 Adoption of new or amended HKFRSs (continued)

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

The adoption of HKFRS 15 does not have a material impact on the amounts reported to the consolidated financial statements of the Group based on the existing business model of the Group. However, upon the adoption of HKFRS 15, amount previously presented as "receipt in advances" as at 31 December 2017 has been reclassified as "contract liabilities" on 1 January 2018. These contract liabilities mainly relate to the advance consideration received from customers and arose from sale of goods. The Group may take certain deposits from customers on acceptance of the order, with the remainder of the consideration payable at the earlier of delivery of the finished goods. If the customer cancels the order, then the Group immediately refund the deposit less costs incurred, if any, to customers.

2.2 New or amended HKFRSs that have been issued but are not yet effective

At the date of this announcement, the following new or amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Business Combinations[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1	Presentation of Financial Statements[2]
Amendments to HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred / removed. Early application of the amendments of the amendments continue to be permitted.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.2 New or amended HKFRSs that have been issued but are not yet effective (Continued)

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The Directors are currently assessing the impact of the new or amended HKFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the consolidated financial statements. Information on new or amended HKFRSs that are expected to have an impact on the Group's accounting policies is provided below.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 " Leases " and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. Adoption of Hong Kong Financial Reporting Standards (Continued)

2.2 New or amended HKFRSs that have been issued but are not yet effective (Continued)

<u>HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments</u>

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

3. Revenue

Revenue represents the printing income earned by the Group during the year.

4. Segment information

The executive directors have identified that the Group has only one reportable segment, which is the provision of printing services.

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas.

	Revenue from external customers		Non-current assets (excluding deferred tax assets, interest in associate, loan to associate and available-for-sale financial assets)	
	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
PRC	-	-	117,935	70,965
United States of America ("USA")	610,222	487,280	19	25
Australia	531,237	671,688	149,483	143,520
United Kingdom	261,377	164,957	6	7
Spain	63,191	61,954	-	-
Mexico	26,034	14,628	-	-
Germany	25,849	2,216	-	-
Peru	24,452	19,609	-	-
New Zealand	20,347	18,716	-	-
Singapore	17,040	15,783	8,794	11,136
Chile	14,770	13,784	-	-
Argentina	11,890	12,746	-	-
Bolivia	10,722	8,846	-	-
Canada	10,008	8,927	-	-
Brazil	7,262	6,980	-	-
France	1,157	22,485	-	-
Hong Kong (domicile)	568	19,563	90,533	93,923
Austria	446	11,553	-	-
Costa Rica	-	2,046	-	-
Others	28,797	18,964	-	-
	1,665,369	1,582,725	366,770	319,576

4. Segment information (Continued)

Sales by geographical markets are analysed based on the location of customers and the geographical location of non-current assets is based on (1) the physical location of the assets (for property, plant and equipment) and (2) location of operations (for intangible assets).

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2018 HK$'000	2017 HK$'000
Reportable segment profit	206,938	201,797
Share of profit of associate	11,266	-
Equity-settled share-based payments	-	(407)
Finance costs	(3,988)	(2,870)
Profit before income tax	214,216	198,520
Reportable segment liabilities	285,567	308,786
Deferred tax liabilities	5,771	7,865
Borrowings	286,040	69,365
Group liabilities	577,378	386,016

5. Other income

	2018 HK$'000	2017 HK$'000
Sales of scrapped paper and by-products	22,423	19,286
Gain on financial assets/liabilities at fair value through profit or loss	612	-
Net foreign exchange gain	-	13,173
Bad debts recovered	5,678	22
Impairment of trade receivables recovered	259	9,355
Interest income	4,242	3,489
Rental income	3,231	164
Gain on de-registration of a subsidiary	28,311	-
Gain on disposals of property, plant and equipment	5,885	2,412
Government grants	373	476
Write back of accruals and other payables	5,792	152
Reversal/ write back of provisions for leasehold dilapidations	7,294	-
Sundry income	3,167	3,751
	87,267	52,280

6. Finance costs

	2018 HK$'000	2017 HK$'000
Interest charges on bank borrowings, which contain a repayment on demand clause	3,488	2,488
Finance lease charges	110	90
Imputed interest on financial liabilities arising from put option	390	292
	3,988	2,870

7. Profit before income tax

	2018 HK$'000	2017 HK$'000
Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration (Note (i) below)	2,673	2,454
Impairment of trade receivables	5,064	2,279
Expected credit loss on loan to associate	1,000	-
Bad debts written off	107	684
Cost of inventories recognised as expense	1,192,284	1,137,197
Write-back of inventories	(1,108)	(3,236)
Depreciation of property, plant and equipment (Note (ii) below)		
- Owned	32,511	38,198
- Held under finance leases	468	327
Amortisation of other non-current assets	1,960	3,296
Listing expenses of a subsidiary (included in other expenses)	27,540	-
Amortisation of intangible assets	3,233	2,425
Gain on disposals of property, plant and equipment	(5,885)	(2,412)
Minimum lease payments paid under operating leases in respect of rented premises and production facilities	38,195	31,186
Net foreign exchange loss/(gain)	1,273	(13,173)
(Gain)/Loss on financial assets/liabilities at fair value through profit or loss	(612)	5,669
Employee benefit expense (Note (iii) below)	311,831	304,427

Notes:

(i) Auditor's remuneration for other non-audit services of HK$1,641,000 was recognised during the year (2017: HK$231,000).

(ii) Depreciation charges of HK$28,538,000 (2017: HK$35,238,000) and HK$4,441,000 (2017: HK$3,287,000) have been included in direct operating costs and administrative expenses respectively.

7. Profit before income tax (Continued)

(iii) Employee benefit expense of HK$198,543,000 (2017: HK$202,973,000), HK$67,595,000 (2017: HK$61,110,000) and HK$45,693,000 (2017: HK$40,344,000) have been included in direct operating costs, selling and distribution costs and administrative expenses respectively.

8. Income tax expense

For year ended 31 December 2018, under the two-tiered profits tax rates regime, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. The profits of group entities not qualified for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

For year ended 31 December 2017, Hong Kong Profits tax is calculated at a flat rate of 16.5% of the estimated assessable profit.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2018 **HK$'000**	**2017** **HK$'000**
Current tax - Hong Kong profits tax		
Tax for the year	20,842	20,654
(Over)/ Under provision in prior years	(209)	169
	20,633	20,823
Current tax - overseas		
Tax for the year	13,637	16,392
Over provision in prior years	(1,734)	(952)
	11,903	15,440
Deferred tax		
(Credited)/Charged during the year	(2,564)	2,809
	29,972	39,072

9. Dividends

	2018 **HK$'000**	**2017** **HK$'000**
Final dividend paid in respect of prior year of HK$0.065 (2017: HK$0.045) per share	50,050	34,650
Special dividend paid in respect of prior year of Nil(2017: HK$0.015) per share	-	11,550
Interim dividend paid in respect of current year of HK$0.03 (2017: HK$0.03) per share	23,100	23,100
	73,150	69,300

At a meeting held on 12 March 2019, the directors recommended a final dividend of HK$0.07 per ordinary share. Those proposed dividends are not reflected as a dividend payable in these financial statements, but reflected as an appropriation of retained earnings for the year ended 31 December 2018.

10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK$169,395,000 (2017: HK$147,668,000) and on the weighted average number of ordinary shares in issue less shares held under share award scheme that have not been vested unconditionally by the employees during the year of 769,997,090 (2017: 769,997,090).

No diluted earnings per share are presented as the Group has no dilutive events on ordinary shares during the year (2017: Nil).

11. Property, plant and equipment

	Freehold land and buildings HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Computer equipment and systems HK$'000	Motor vehicles HK$'000	Machinery HK$'000	Total HK$'000
At 1 January 2017								
Cost	11,031	5,086	7,580	55,607	12,275	3,284	305,825	400,688
Accumulated depreciation	(2,794)	(4,748)	(4,466)	(45,952)	(11,702)	(1,440)	(195,667)	(266,769)
Net book amount	8,237	338	3,114	9,655	573	1,844	110,158	133,919
Year ended 31 December 2017								
Opening net book amount	8,237	338	3,114	9,655	573	1,844	110,158	133,919
Exchange differences	724	1	220	239	39	45	6,320	7,588
Additions	-	103	362	5,194	984	-	12,956	19,599
Disposals	-	(7)	(3)	(1)	(5)	(189)	(10,304)	(10,509)
Acquisition of subsidiary	-	27	91	191	35	-	-	344
Disposed through disposal of subsidiaries	-	-	(8)	-	(7)	-	(161)	(176)
Depreciation	(1,032)	(211)	(667)	(3,762)	(394)	(727)	(31,732)	(38,525)
Closing net book amount	7,929	251	3,109	11,516	1,225	973	87,237	112,240
At 31 December 2017 and 1 January 2018								
Cost	12,035	5,062	8,334	61,558	13,302	2,950	303,939	407,180
Accumulated depreciation	(4,106)	(4,811)	(5,225)	(50,042)	(12,077)	(1,977)	(216,702)	(294,940)
Net book amount	7,929	251	3,109	11,516	1,225	973	87,237	112,240
Year ended 31 December 2018								
Opening net book amount	7,929	251	3,109	11,516	1,225	973	87,237	112,240
Exchange differences	(612)	(4)	(55)	(435)	(21)	(17)	(4,486)	(5,630)
Additions	-	65	599	2,329	471	1,150	66,175	70,789
Disposals	-	-	-	(710)	-	-	(341)	(1,051)
Depreciation	(1,016)	(171)	(733)	(3,959)	(602)	(603)	(25,895)	(32,979)
Closing net book amount	6,301	141	2,920	8,741	1,073	1,503	122,690	143,369
At 31 December 2018								
Cost	11,031	5,110	8,701	61,574	13,700	4,535	328,722	433,373
Accumulated depreciation	(4,730)	(4,969)	(5,781)	(52,833)	(12,627)	(3,032)	(206,032)	(290,004)
Net book amount	6,301	141	2,920	8,741	1,073	1,503	122,690	143,369

As at 31 December 2018 and 2017, the Group's freehold land and buildings are situated in Australia.

Net book amount of property, plant and equipment as at 31 December 2018 includes the net carrying amount of HK$2,426,000 (2017: HK$1,473,000) held under finance leases.

12. Intangible assets

	Goodwill HK$'000	Customer relationship HK$'000	Total HK$'000
At 1 January 2017			
Cost	150,462	-	150,462
Amortisation and impairment	-	-	-
Net carrying amount	150,462	-	150,462
Year ended 31 December 2017			
Opening net carrying amount	150,462	-	150,462
Acquisition of subsidiary	27,741	9,700	37,441
Exchange differences	8,459	-	8,459
Impairment losses	(1,294)	-	(1,294)
Amortisation during the year	-	(2,425)	(2,425)
Closing net carrying amount	185,368	7,275	192,643
At 31 December 2017			
Cost	186,662	9,700	196,362
Amortisation and impairment	(1,294)	(2,425)	(3,719)
Net carrying amount	185,368	7,275	192,643
Year ended 31 December 2018			
Opening net carrying amount	185,368	7,275	192,643
Exchange differences	(8,458)	-	(8,458)
Amortisation during the year	-	(3,233)	(3,233)
Closing net carrying amount	176,910	4,042	180,952
At 31 December 2018			
Cost	178,204	9,700	187,904
Amortisation and impairment	(1,294)	(5,658)	(6,952)
Net carrying amount	176,910	4,042	180,952

13. Interest in associate/loan to associate

	2018 HK$'000	2017 HK$'000
Interest in associate:		
Share of net assets other than goodwill	3,397	-
Goodwill	52,771	-
	56,168	-
Loan to associate:		
Advance to associate	54,600	-
Expected credit loss recognised during the year	(1,000)	-
	53,600	-

13. Interest in associate/loan to associate (Continued)

As at 31 December 2017, investment in The Quarto Group, Inc. (the "Associate") was classified as available-for-sale financial assets in light of insignificant influence over this Company by the Group.

During the year, upon the initial adoption of HKFRS 9, this balance is classified as a FVOCI and the related reserve balance of HK$5,100,000 was reclassified from available-for-sale financial assets reserve to FVOCI reserve on 1 January 2018.

For the period from 1 January 2018 to 17 May 2018, the Group purchased additional 3.2% equity interests in the Associate, through market trading, with a consideration of HK$11,947,000 and equity interest held by the Group increased to 19.15%. On 17 May 2018, 2 directors of the Company were appointed as the directors of the Associate and since then, the Group has significant influence over the Associate. The balance is accounted for as an interest in associate and the related balance of FVOCI reserve was released to retained earnings accordingly on that day.

Movements of this investment during this period are as follows:

	HK$'000
Fair value as at 1 January 2018	47,835
Additions	11,947
Fair value loss	(12,551)
Exchange differences	42
Fair value as at 17 May 2018	47,273

In November 2018, the Group further acquired 0.98% equity interests in the Associate with a consideration of HK$1,434,000. As at 31 December 2018, the Group held 20.13% equity interests in the Associate and the quoted market price for this investment is HK$30,146,000.

In November 2018, the Group subscribed for the loan note from the Associate with a principal amount of US$7 million (equivalent to HK$54.6 million) which carries interest rate of 3.5% per annum. The loan note is unsecured and repayable on 31 August 2020.

The Group measures the loss allowance for this loan to associate at an amount equal to 12-month ECL. ECL on this balance is estimated with reference to risk or probability that a credit loss occurs and forward looking information with reference to general macroeconomic conditions that may affect the ability of the associate to settle the loan. Accordingly, an expected credit loss of HK$1,000,000 was recognised as an expense during the year.

14. Inventories

	2018 **HK$'000**	**2017** **HK$'000**
Raw materials	143,892	108,331
Work-in-progress	44,296	32,870
Finished goods	4,142	4,653
Less: Provision for inventories obsolescence	(12,512)	(14,413)
	179,818	131,441

15. Trade and other receivables and deposits

Ageing analysis of trade receivables as at 31 December 2018, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
0 – 30 days	136,165	121,781
31 – 60 days	96,002	82,935
61 – 90 days	73,762	88,371
91 – 120 days	63,344	62,054
121 – 150 days	28,678	52,832
Over 150 days	57,345	37,661
Total trade receivables	455,296	445,634
Less: Provision for impairment of trade receivables	(7,638)	(2,930)
Trade receivables – net	447,658	442,704
Other receivables and deposits	86,298	32,683
	533,956	475,387

In general, the Group allows a credit period from 30 to 150 days (2017: 30 to 150 days) to its customers. As at 31 December 2018, trade receivables of HK$47,446,000 were due from associate and its subsidiaries.

16. Financial assets/(liabilities) at fair value through profit or loss

This relates to the forward foreign exchange contracts which are considered by management as part of economic hedging arrangements but have not been formally designated as hedges in accordance with HKAS 39. These foreign exchange contracts were stated at fair value.

17. Trade and other payables

As at 31 December 2018, ageing analysis of trade payables based on invoice date is as follows:

	2018 HK$'000	2017 HK$'000
0 – 30 days	64,252	58,714
31 - 60 days	27,550	35,244
61 – 90 days	18,789	15,871
91 – 120 days	1,172	1,028
Over 120 days	443	1,699
	112,206	112,556
Other payables and accruals	122,292	143,136
	234,498	255,692

Credit terms granted by the suppliers are generally 0 - 90 days (2017: 0 – 90 days).

18. Bank borrowings

	2018 HK$'000	2017 HK$'000
Current portion		
- Bank loans due for repayment within one year	71,265	28,400
- Bank loans due for repayment after one year which contain a repayment on demand clause	214,775	40,965
Total bank borrowings	286,040	69,365

Assuming that the banks do not request the clause for repayment on demand and based on the repayment dates as scheduled in the loan agreements, the Group's bank borrowings are due for repayments, as at each of the reporting dates, as follows:

	2018 HK$'000	2017 HK$'000
Within one year	71,265	28,400
In the second year	66,850	23,465
In the third to fifth year	147,925	17,500
Wholly repayable within five years	286,040	69,365

19. Finance lease liabilities

	2018 HK$'000	2017 HK$'000
Total minimum lease payments:		
Due within one year	738	424
Due in the second to fifth years	2,117	1,321
	2,855	1,745
Future finance charges on finance leases	(315)	(212)
Present value of finance lease liabilities	2,540	1,533
Present value of minimum lease payments:		
Due within one year	605	337
Due in the second to fifth years	1,935	1,196
	2,540	1,533
Less: Portion due within one year included under current liabilities	(605)	(337)
Non-current portion included under non-current liabilities	1,935	1,196

The Group entered into finance lease for various items of machineries. The lease runs for an initial period of five years (2017: five years) and does not have options to renew or any contingent rental provisions.

Finance lease liabilities are effectively secured by the underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

20. Non-controlling interests

Reorganisation of Left Field Printing Group Limited ("Left Field") and OPUS Group Limited ("OPUS")

(i) Dividend reinvestment scheme of OPUS

On 14 June 2018, OPUS, a subsidiary of the Group which was listed in Australia Stock Exchange, declared the special dividend of AUD0.13 per share of OPUS and adopted a dividend reinvestment scheme, where each OPUS shareholder (including the Group) could elect to receive additional new OPUS shares in lieu of cash for all or part of the special dividend that they were entitled to receive. On 22 August 2018, 28,614,371 ordinary shares of OPUS were issued to shareholders under the dividend reinvestment scheme and equity interests in OPUS held by the Group was increased by 2.65% from 75.61% to 78.26% on that date. As the increase in equity interests do not affect the Group's controls over OPUS, the difference between the above 2.65% of net assets of the OPUS Group and capital contribution made by the shareholders of OPUS, excluding the Group, elected to receive shares was accounted for in other reserve, as follows:

	2018 **HK$'000**
Capital contribution from non-controlling shareholders of OPUS	7,900
2.65% of net assets of the OPUS Group	(10,896)
Amount accounted for in other reserve	(2,996)

(ii) Share offer by Left Field

On 14 June 2018, OPUS entered into a scheme implementation agreement under which every 1 share held by the OPUS shareholders could exchange 3 shares of Left Field. Upon the completion of these share exchange scheme in September 2018, the Group held 78.26% equity interests in Left Field.

On 8 October 2018, the shares of Left Field were successfully listed on the Hong Kong Stock Exchange. As a result of public issue of 105,000,000 shares by Left Field (the "Public Issue"), the Group's equity interests in Left Field was diluted from 78.26% to 62.05%. As the decrease in equity interests do not affect the Group's controls over Left Field, the difference between the diluted effect of shares of net assets of Left Field and its subsidiaries (the "Left Field Group") as a result of the Public Issue and the net proceeds received as a result of the Public Issue was accounted for in other reserve, as follows:

20. Non-controlling interests (Continued)

Reorganisation of Left Field Printing Group Limited ("Left Field") and OPUS Group Limited ("OPUS") (Continued)

(ii) Share offer by Left Field (Continued)

	2018 HK$'000
Net proceeds received as a result of the Public Issue	94,258
The diluted effect of shares of net assets of Left Field Group as a result of the Public Issue	(66,196)
Amount accounted for in other reserve	28,062

CHAIRMAN'S STATEMENT

The Lion Rock Group strode through 2018 facing a few yellow flags in the global market scene: the uncertainties around Brexit, the escalating US-China trade war, and the roller coaster price of paper. In China where our biggest production facility is based, continuing rise in costs for labour and more stringent environmental measures presented immediate and real challenges.

I am pleased to inform that our Group is able to deliver a satisfactory performance despite these major hurdles, with sales turnover increased by 5% and net profit after tax increased by 16%.

We view the US-China trade war as a harbinger of the future of the printing industry in China. Though we are cautiously optimistic that the 25% extra tariffs may not happen soon, the threat is expected to remain in the foreseeable future. Strategically we are getting ready for the possible new barriers of exporting from China to the US. Our Group has already established a foothold in Singapore through a 100% owned subsidiary COS. Our plan is to significantly enlarge COS' printing capacity to give our Group the flexibility of production locations.

In October this year, we also saw the listing of our 62.05% owned subsidiary Left Field Printing Group Limited on the Main Board of the Hong Kong Stock Exchange. OPUS Group's main businesses are under Left Field in Australia. The Hong Kong listing will allow access to more active capital market activities.

I take this opportunity to thank Mr. David Tsui who resigned from the board on 14 September 2018. David over the years has provided sound advice to management on the adoption of technology and the integration of APOL.

We are optimistic of our business prospects in 2019 and are confident that our more diversified and balanced portfolio in print manufacturing, print services management and publishing is a stronger growth platform.

To our staff, your dedication and contribution has been pivotal to the Group's becoming one of the most progressive printing companies in the world. Thank you.

Yeung Ka Sing
Chairman
Hong Kong, 12 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

PRINT MANUFACTURING

1010 Printing, China manufacturing and international sales operations:
Sales turnover registered a 6% year-on-year decline although the downward trend had been arrested by the end of the year. With a HKD 60 million facilities upgrade program, our China plant is among the most efficient book printing operations in the country. Significant cost savings would be expected when the program is rolled out in full swing.

The ability to execute large orders at fast turnaround time has always been the hallmark of 1010 Printing. The recent completion of a project involving 26 million copies of textbooks for a leading education publisher is a case in point. Leveraging on our inventory of paper, we completed the project in a record 45 days in early 2019. This required precise orchestration with our partners in paper supply, logistics and cross border sub-contracting.

COS, Singapore manufacturing:
Despite the tough trading environment in Singapore, COS managed to deliver a 26% increase in sales and enjoyed a double digit net profit margin. This was made possible by exercising strict control on staffing cost, and leveraging on the competitive advantage of Singapore being the regional distribution centre. COS will be of growing importance to our international book publishers who see the need of alternative production choices in Asia besides China.

OPUS Group, Australia/ Left Field Printing Group:
In 2018, OPUS Group was successfully listed on the main board of the Hong Kong Stock Exchange, and was renamed Left Field Printing Group.

Left Field Printing experienced a marginal increase of 0.2% in sales turnover in its reporting currency, Australian dollars, as the trading environment for printing in Australia was pressured by the increase in paper price. The government sector continues to shrink, in line with the national policy to go paperless. The ongoing decrease in size of print run also presents more difficulty in achieving optimal production efficiency.

On the positive side, Left Field Printing has won a substantial government order for print related services. This was demonstrative of the synergistic effect of IT enabling support to production. To position for further expansion, Left Field Printing has undergone a major equipment upgrade.

PRINT SERVICES MANAGEMENT

APOL Group, international sales operations:
It was an outstanding year for APOL where sales turnover increased by 23%. Margin however dropped slightly reflecting the competitive nature of the business. The forward trend is encouraging as all business units registered increase in sales turnover. APOL is aggressively pursuing the hand assembly book sector and strengthening the ability in sourcing non-book merchandise.

Regent, Hong Kong sales operation:
In its first full-year operation under the Lion Rock Group, Regent increased net profit after tax by 28%. The Regent management is working on the mitigation of tariff increases imposed by the US government on certain products including stationeries, journals and notebooks.

PUBLISHING

Quarto, UK and US publishing operations:
As one of the world's top ten English language illustrated book publishers, Quarto has been a major customer to Lion Rock Group since 2009. In recent years it has faced cash flow problems and the situation had been made more difficult by being placed under the restructuring team of its lenders.

Lion Rock has bought a 20.13% stake in Quarto. On 17 May 2018, Mr. CK Lau was appointed as executive director of Quarto and has since been actively involved with banks on the extension of the loan. As it now stands, the term loan has been extended to August 2020 while a de-leveraging exercise is vigorously underway. The business outlook of publishing illustrated books is positive, as the progress of the conversion to digital form has been slow as evidenced by the recent uptake of sales of printed books. With the new financial structure, Quarto is heading towards a more sustainable future.

PROSPECT

2018 has been a most interesting year for the Lion Rock Group. We were able to convince the few customers who had initial reservations about us keeping a firewall between our publishing and printing activities by delivering books on time and on specifications at a level which ranks among one of the best in our industry in 2018.

2019 is off to a good start for the Group. Our order book for the first two months in 2019 is about 10% ahead of 2018 and we have reasons to believe that this positive trend will continue for the rest of the year.

The cost out measures implemented at Quarto are producing results, though it will take some time for them to flow on to the bottom line.

Our balanced portfolio of business and adoption of technology in managing our business on a proactive basis has made Lion Rock Group one of the most agile players in the book printing and publishing industry worldwide. Our return on investment has benefited from our asset light policy and our strong balance sheet will enable the Group to seize on merger and acquisition opportunities in the future.

FINANCIAL REVIEW

Revenue for the year ended 31 December 2018 was approximately HK$1,665.4 million and represented an increase of 5% from the previous corresponding year (2017: HK$1,582.7 million). The increase was contributed by the strong performance of our Asia Pacific Offset division and the inclusion of full year result of Regent after acquisition in late Mar 2018.

Gross profit margin remained stable at 28% as compared with last year. Increase in material cost was offset by the decrease in machinery depreciation charge for the year, due to fully depreciation of certain machineries.

Other income increased from HK$52.3 million in 2017 to HK$87.3 million in 2018 was mainly due to 1) the gain on release of exchange reserve upon deregistration of subsidiary in New Zealand of approximately HK$28.3 million; 2) reversal/write back of provisions for leasehold dilapidations of HK$7.3 million as a result of new lease arrangement and updated market assessment; 3) increase in write back of accruals and other payables of prior years of HK$5.6 million; 4) increase in gain on disposal of property, plant and equipment of approximately HK$3.5 million; 5) increase in sales of scrapped paper and by-products of HK$3.1 million; and offset with decrease in foreign exchange gain.

Selling and distribution expenses increased from approximately HK$196.2 million in 2017 to approximately HK$211.5 million in 2018. The increase was in line with the increase in sales during the period.

Administrative expenses increased from approximately HK$96.0 million in 2017 to HK$108.2 million in 2018. The increase mainly due to the increase in staff costs and increase in legal and other professional fees upon certain projects carried out during the year.

Other expenses for the year represented listing expenses of subsidiary and provision for impairment on trade receivables. Amount increased substantially from HK$3.0 million in 2017 to HK$33.7 million in 2018. The increase was mainly due to the listing expenses of approximately HK$28.0 million incurred on the delisting of our subsidiary, OPUS Group Limited from Australian Securities Exchange and the listing of Left Field Printing Group Limited in the Main Board of the Stock Exchange of Hong Kong after reorganisation.

Income tax expenses for the year decreased to approximately HK$30.0 million for 2018 from approximately HK$39.1 million in 2017. The decrease in income tax was due to the non-taxable gain arose from the release of exchange reserve on deregistration of subsidiary in New Zealand as mentioned above.

Profit for the year attributable to owners of the Company amounted to approximately HK$169.4 million (2017: HK$147.7 million), an increase of 15% compared with last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had net current assets of approximately HK$677.3 million (31 December 2017: HK$680.1 million) of which the cash and bank balances were approximately HK$508.3 million (31 December 2017: HK$424.2 million). The Group's current ratio was approximately 2.2 (31 December 2017: 2.9).

Total bank borrowings and finance lease liabilities for the Group amounted to HK$288.6 million (31 December 2017: HK$70.9 million). As at 31 December 2018, bank borrowings were denominated in Hong Kong dollars and finance lease liabilities were denominated in Australian dollars. All bank borrowings are at floating rates and finance leases are in fixed rates with all borrowings repayable within five years. The Group's gearing ratio as at 31 December 2018 was 24.8% (31 December 2017: 6.8%), which is calculated on the basis of the Group's total interest-bearing debts over the total equity.

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.

FOREIGN CURRENCY MANAGEMENT

The Group's sales were denominated in a mixture of currencies, primarily US dollars, Australian dollars, Euros and Pound Sterling. In addition, the Group's costs and expenses are mainly denominated in US dollars, Australian dollars, Hong Kong dollars and Renminbi. From time to time the Group enters into foreign currency exchange contracts to hedge its currency risk.

CAPITAL EXPENDITURE

During the year, the Group had acquired property, plant and equipment at approximately HK$70.8 million. The purchase is mainly financed by internal resources. The net book amount of property, plant and equipment includes net carrying amount of approximately HK$2.4 million (31 December 2017: HK$1.5 million) in respect of assets held under finance leases.

PLEDGED DEPOSIT

As at 31 December 2018, the Group had pledged deposit of approximately HK$5.8 million (2017: Nil). The pledged deposit is pledged as a security for the Group's banking facilities to compensate the potential quality non-performance to be claimed by two customers in Australia (up to amount of approximately HK$3.0 million).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2018, the Group had around 1,224 full-time employees (2017: 1,222). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employees benefits include provident fund, insurance and medical cover.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to recommend the payment of a final dividend of HK$0.07 (the "Final Dividend") for the year ended 31 December 2018 (2017: final dividend of HK$0.065) to holders of ordinary shares whose names appear on the register of holders of ordinary shares of the Company as at the close of business on 16 May 2019. The register of shareholders will be closed on 16 May 2019, during which period no transfer of shares will be registered. To qualify for the Final Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, whose share registration public offices are located 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 15 May 2019. Subject to the passing of the relevant resolution of the forthcoming annual general meeting, the Final Dividend is expected to be paid on 29 May 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") during the year.

AUDIT COMMITTEE

The audit committee has three members comprising the three independent non-executive directors, namely, Mr. Yeung Ka Sing, Prof. Lee Hau Leung and Dr. Ng Lai Man, Carmen with terms of reference in compliance with the Listing Rules. The audit committee has reviewed the audited financial results of the Group for the year ended 31 December 2018.

On behalf of the Board
Lau Chuk Kin
Executive Director

Hong Kong,12 March 2019

As at the date of this announcement, the Board comprises Mr. Lau Chuk Kin, Ms. Lam Mei Lan and Mr. Chu Chun Wan as executive directors; Mr. Li Hoi David and Mr. Guo Junsheng as non-executive directors; Mr. Yeung Ka Sing, Prof. Lee Hau Leung and Dr. Ng Lai Man, Carmen as independent non-executive directors.

This final results announcement is published on the website of Hong Kong Stock Exchange at www.hkexnews.hk and on the Company's website at www.lionrockgrouphk.com. The annual report 2018 of the Company will also be published on the aforesaid websites in due course.