



Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 00765



2019 ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Li Shaohua
(Chief Executive Officer)
(appointed on 21 February 2019)

Mr. Poon Wai Yip, Albert

Mr. Wong Sze Chai
(Chief Executive Officer)
(resigned on 21 February 2019)

Non-executive Director:

Mr. Gao Xiaorui *(Chairman)*

Independent Non-executive Directors:

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Lam Tak Leung

AUDIT COMMITTEE

Mr. Lau Shu Yan *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lam Tak Leung

REMUNERATION COMMITTEE

Mr. Lam Tak Leung *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lau Shu Yan

NOMINATION COMMITTEE

Mr. Gao Xiaorui *(Committee Chairman)*
Mr. Xie Xiaohong
Mr. Lam Tak Leung

COMPANY SECRETARY

Mr. Leung Tak Ho

AUTHORISED REPRESENTATIVES

Mr. Li Shaohua
(appointed on 21 February 2019)

Mr. Leung Tak Ho

Mr. Wong Sze Chai
(resigned on 21 February 2019)

AUDITOR

HLM CPA Limited
Certified Public Accountants

LEGAL ADVISER

Cheung Tong & Rosa Solicitors

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

Victoria Place
5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

15/F, Sun Hing Industrial Building
46 Wong Chuk Hang Road
Aberdeen
Hong Kong

WEBSITE

www.perfectech.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors", and each a "Director") of Perfectech International Holdings Limited (the "Company"), I am pleased to present our shareholders the consolidated results and prospects of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

BUSINESS REVIEW

Affected by the unresolved Sino-American trade disputes and the political instability in Europe, the Group's operating environment remained challenging during the year ended 31 December 2019. For the year ended 31 December 2019, the Group's revenue was approximately HK\$141,936,000 (2018: HK\$145,251,000), representing a slight decrease of about 2% as compared to the last year. The Group recorded a loss for the year attributable to owners of the Company of approximately HK\$55,038,000 (2018: HK\$36,424,000). The basic and diluted loss per share were both at 16.84 HK cents (2018: both 11.14 HK cents).

FUTURE PLANS FOR MATERIAL INVESTMENTS

On 25 April 2019, the Company entered into a non-legally binding memorandum of understanding respectively with each of Hong Kong Sino-Science Energy Investment Company Limited, a company incorporated under the laws of Hong Kong ("First MOU") and Hong Kong Sino-Science International Oil & Gas Investment Group Company Limited, a company incorporated under the laws of Hong Kong ("Second MOU"). Pursuant to the First MOU, the Company intends to acquire 100% equity interest in Kozhan JSC ("Kozhan"), a joint stock company listed on the Kazakhstan Stock Exchange ("First Possible Acquisition"). Kozhan is principally engaged in oil exploration and production. The major assets owned by Kozhan include two oil fields in production located in Kazakhstan. Pursuant to the Second MOU, the Company intends to acquire interests in Sozak Oil and Gas LLP ("Sozak"), a limited liability partnership established under the laws of Kazakhstan, so that the Company's interests in Sozak will give it sufficient influence in decisions over the exploration and/or production activities of Sozak ("Second Possible Acquisition" and together with the First Possible Acquisition, collectively the "Possible Acquisitions"). For details of the Possible Acquisitions, please refer to the Company's announcement "Inside Information Memorandum of Understanding in Respect of the Possible Acquisitions" dated 25 April 2019.

On 15 August 2019, the Company entered into a framework sale and purchase agreement with Sino-Science Netherlands Petroleum B.V., a company incorporated under the laws of Netherlands ("SSNP"), pursuant to which the Company has conditionally agreed to acquire more than 50% of the total participating interests or shares of Sozak ("Proposed Acquisition"). Sozak is principally engaged in the exploration of oil and natural gas in South-Kazakhstan and Kyzylorda region and the petroleum assets are located in the Marsel Block in the Chu-Sarysu Basin of Kazakhstan which is currently under appraisal. The consideration for the Proposed Acquisition shall be paid by the Company through a combination of cash, the allotment and issue of new shares of the Company and/or other forms of securities issued by the Company at a price to be agreed upon by SSNP and the Company. The material terms of the Proposed Acquisition are yet to be agreed and are subject to the execution of the final definitive agreement. For details of the Proposed Acquisition, please refer to the Company's announcement "Inside Information in Relation to Framework Sale and Purchase Agreement" dated 15 August 2019.

It is the intention of the Group to actively identify good merger and acquisition opportunities in order to acquire new business or assets that will bring additional value and new income streams to the Group. Leveraging on the extensive experience in the areas of oil and natural gas industry and corporate management, the Board believes that the Proposed Acquisition will help the Company navigate its business focus towards natural gas and clean energy to meet the growing natural gas demand in the People's Republic of China (the "PRC"), and create long-term returns for the shareholders of the Company with enhanced values.



CHAIRMAN'S STATEMENT



PROSPECT

The Sino-American trade disputes and the political instability in Europe are expected to continue to cast uncertainty and challenges to the Group's operating environment in the coming years. Further, the outbreak of Coronavirus Disease 2019 (the "COVID-19") at the beginning of year 2020 has brought about additional uncertainties in the Group's operating environment in the PRC. As far as the Group's businesses are concerned, the COVID-19 outbreak has caused operational delays. The Group has put in place contingency measures to minimise the impact from the COVID-19 outbreak. The Directors are moving ahead cautiously. The Group will continue to optimise its product mix to meet the demand of the customers, strengthen production and operational efficiency, as well as implement stringent cost control measures in order to minimise the impact of these challenges. Meanwhile, the Directors endeavour to materialise the Proposed Acquisition in order to bring additional value and new income streams to the Group, and create long-term returns for the shareholders of the Company with enhanced values. With the joint efforts of all of its employees, the Group endeavours to work well with its customers, business partners and shareholders to maximise its corporate value and deliver promising returns to its shareholders.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the years ended 31 December 2019 and 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of shareholders to attend and vote at the annual general meeting ("AGM") of the Company, the Register of Members will be closed from 8 June 2020, Monday, to 15 June 2020, Monday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong at Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 5 June 2020, Friday.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow Directors and the staff for their contribution and cordial support during the year under review.

On behalf of the Board

Gao Xiaorui
Chairman

Hong Kong, 29 April 2020



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group's core business recorded a loss of HK\$26,831,000 (2018: HK\$23,629,000). Detailed performance of each segment of the core business is discussed below.

Toy products

The revenue of toy products segment increased slightly by about 0.5% to approximately HK\$128,203,000 (2018: HK\$127,581,000), and accounted for about 90% of total revenue of the Group. The increase in revenue of this segment was primarily attributable to the increase in sales to customers in Asia (other than Hong Kong), which was partially offset by the decrease in sales to customers in the United States of America, Europe and Hong Kong. The loss of this segment increased to approximately HK\$23,454,000 (2018: HK\$17,393,000). During the year, the production plant in Shenzhen, the PRC, was relocated to Zhongshan, the PRC and the relocation incurred staff compensation payments amounted to HK\$19,584,000 (2018: Staff compensation for relocation of another factory amounted to HK\$508,000). The Group had implemented stringent cost control and strengthened production and operational efficiency so as to enhance the result of this segment.

Novelties and decorations products

The revenue of the novelties and decoration products segment decreased by about 22% to approximately HK\$13,733,000 (2018: HK\$17,670,000), which was mainly attributable to the decrease in sales to customers in Europe and the United States of America. The loss of this segment reduced to approximately HK\$3,377,000 (2018: HK\$6,236,000), as a result of better utilisation of existing inventories and effective cost control measures implemented by the Group.

Administrative expenses

Administrative expenses increased by about 50% to approximately HK\$81,303,000 (2018: HK\$54,246,000), which was mainly attributable to the increase in the staff compensation payments which amounted to approximately HK\$19,584,000 in respect of relocation of the production plant as discussed in the paragraph headed "Toy products" above. Further, the legal & professional costs incurred for the Possible Acquisitions and Proposed Acquisition amounted to approximately HK\$10,462,000.

Finance costs

Finance costs increased to approximately HK\$2,197,000 (2018: HK\$124,000), as a result of the increase in interest on bank borrowings, lease liabilities and amount due to a former director of subsidiaries during the year.

Liquidity and financial resources

As at 31 December 2019, the Group had amount due to a former director of subsidiaries of approximately HK\$47,587,000 (31 December 2018: HK\$Nil), short term bank borrowings of approximately HK\$5,000,000 (31 December 2018: HK\$7,000,000) and bank overdrafts of HK\$Nil (31 December 2018: HK\$2,478,000). The Group's gearing ratio, calculated on the basis of the aggregate of the amount due to a former director of subsidiaries, bank borrowings and overdrafts over the equity attributable to owners of the Company, was approximately 44% (31 December 2018: 6%).

As at 31 December 2019, the Group had bank balances and cash of approximately HK\$70,403,000 (31 December 2018: HK\$73,946,000). With total current assets as at 31 December 2019 of approximately HK\$102,869,000 (31 December 2018: HK\$107,948,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.



MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2019, the Group had pledged its leasehold land and buildings with carrying value of approximately HK\$33,703,000 (31 December 2018: HK\$61,436,000) and investment property of approximately HK\$39,900,000 (31 December 2018: HK\$Nil) to secure banking facilities granted to the Group.

Net asset value

The net asset value per share as at 31 December 2019 was approximately HK\$0.37 (31 December 2018: HK\$0.48), calculated on the basis of the equity attributable to owners of the Company of approximately HK\$119,571,000 (31 December 2018: HK\$158,311,000) over the outstanding number of ordinary shares in issue on that date of 326,923,607 (31 December 2018: 326,923,607).

Employees and remuneration policies

As at 31 December 2019, the Group employed approximately 680 (2018: 860) full time employees. The Group remunerates its employees primarily based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full-time employees.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. As all of its factories are located in the PRC, expenses incurred there are denominated in Renminbi. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required. As at 31 December 2019, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Shaohua (Mr. Li), aged 57, became an executive director, the chief executive officer and an authorised representative of the Company on 21 February 2019. He graduated from Daqing Petroleum College (now known as Northeast Petroleum University) with a bachelor degree in petroleum drilling engineering, and obtained a master degree in business administration from Murdoch University, Australia.

Mr. Li has over 35 years' experience in the areas of oil and natural gas industry, corporate management, and merger and acquisition. He was responsible for business operations, sales management and industrial investment in 華北石油管理局 (North China petroleum administration bureau*), 珠海格力電器股份有限公司 (Gree Electric Appliances Inc. of Zhuhai*) and 珠海九豐阿科能源有限公司 (Zhuhai Jovoarco Energy Ltd*) respectively, and served as a deputy general manager in 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd.*) ("Guangdong Zhenrong"). Besides, Mr. Li was the executive vice president of Wai Chun Strategic Investment Limited, a subsidiary of Wai Chun Group Holdings Limited (a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 1013) and was mainly responsible for the business development in the mainland China. Mr. Li is currently an independent non-executive director of China Finance Investment Holdings Limited (a company listed on the Stock Exchange, stock code: 00875).

Mr. Li has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

Mr. Poon Wai Yip, Albert (Mr. Poon), aged 36, became an executive director of the Company on 6 December 2011. He graduated from the University of Nottingham, United Kingdom with a bachelor's degree of Engineering in Civil Engineering and a master of science degree in Management from the Imperial College of Science, Technology and Medicine in the United Kingdom. Mr. Poon has over ten years' experience in corporate finance and is responsible for the investment activities and corporate finance function of the Group. Prior to joining the Group in 2011, he worked for the corporate finance division of a licensed corporation registered under the Securities and Futures Ordinance (the "SFO") in Hong Kong and has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganisation, takeover matters and a variety of fund raising exercises. Also, Mr. Poon is an executive director of certain subsidiaries of the Company.

Mr. Poon has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

Non-executive Director

Mr. Gao Xiaorui (Mr. Gao), aged 39, became the non-executive director of the Company on 28 November 2016. He is the chairman of the Company and also the chairman of the nomination committee of the Company. Mr. Gao is responsible for strategic development of the Group and provides leadership for the Board. He is also the sole director of Fresh Choice Holdings Limited (which is a substantial shareholder of the Company). He has over 10 years of experience in the investment and accounting fields. Mr. Gao graduated from Communication University of China with a bachelor's degree in accounting. As at the date of this report, Mr. Gao, through his holding of 90% interest in the issued shares of Fresh Choice Holdings Limited, is interested in 119,297,041 shares of the Company, representing approximately 36.49% of the entire issued share capital of the Company.

Mr. Gao has entered into a service contract with the Company for a term of three years which has commenced from 28 November 2019.

* for identification purpose only

Independent non-executive Directors

Mr. Lam Tak Leung (Mr. Lam), aged 66, became an independent non-executive director of the Company, the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Company on 20 December 2018. He graduated from the City University of Macau with a Master Degree of Business Administration. Mr. Lam has been dealing with his business in Hunan Province, China for more than 30 years, and is currently the President of Steeland Investment and Development Limited. In 2013, Mr. Lam was appointed as a Counsellor of Hunan Provincial People's Government, China. He also was a committee member of the 7th, 8th, 9th and 10th Chinese People's Political Consultative Conference (CPPCC) in Hunan Province, China. Meanwhile, he was the 5th, 6th and 7th Vice President of Hunan Overseas Friendship Association. Mr. Lam is the chairman of Hong Kong New Territories District Adviser Alumni Association. He has been serving the community in Hong Kong for many years and was awarded the British Medal of Honour (BH) by Queen Elizabeth in 1995, awarded the Medal of Honour (MH) by the Hong Kong Special Administrative Region Government in 2006 and appointed as the Justice of Peace (JP) by the Hong Kong Special Administrative Region Government in 2012. He was formerly an independent non-executive director of Modern Beauty Salon Holdings Limited (a company listed on the Stock Exchange, stock code: 919) from 1 January 2013 to 1 March 2020.

Mr. Lam has entered into a service contract with the Company for a term of three years which has commenced from 20 December 2018.

Mr. Lau Shu Yan (Mr. Lau), aged 38, became an independent non-executive director of the Company on 28 November 2016. He is the chairman of the audit committee and a member of remuneration committee of the Company. Mr. Lau is currently a partner of an audit firm. He had previously worked in an international accounting firm and has over 10 years of experience in finance, auditing and accounting fields. He is currently an independent non-executive director of Daohe Global Group Limited (the shares of which are listed on the Main Board of the Stock Exchange (stock code: 915)), and was formerly an independent non-executive director of Union Asia Enterprise Holdings Limited (the shares of which are listed on the GEM of the Stock Exchange (stock code: 8173)) for the period from 31 December 2015 to 13 November 2019 and an independent non-executive director of 深圳市明華澳漢科技股份有限公司 (Shenzhen Mingwah Aohan High Technology Corporation Limited) (the shares of which are listed on the GEM of the Stock Exchange (stock code: 8301)) for the period from 30 September 2016 to 9 April 2020. Mr. Lau graduated from the University of Newcastle upon Tyne, the United Kingdom with a bachelor's degree in arts majoring in accounting and financial analysis. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Lau has entered into a service contract with the Company for a term of three years which has commenced from 28 November 2019.

Mr. Xie Xiaohong (Mr. Xie), aged 49, became an independent non-executive director of the Company on 28 November 2016. He is a member of the audit committee, remuneration committee and nomination committee of the Company. He has over 20 years of experience in providing business solutions and consulting services to banking, finance and telecommunication industries. Mr. Xie is a senior business consultant at Bank of Nova Scotia, Canada currently, providing business solution and consulting services to private and institutional wealth management businesses. Between 2011 and 2012, he was a business systems analyst at Investment Industry Regulatory Organisation of Canada, and was responsible for market surveillances support on over 10 security exchange markets of Canada. Mr. Xie graduated from Peking University, China with a bachelor's degree of technical physics majoring in nuclear physics, and he has also obtained a master's degree of applied science majoring in systems design engineering from the University of Waterloo, Canada.

Mr. Xie has entered into a service contract with the Company for a term of three years which has commenced from 28 November 2019.

SENIOR MANAGEMENT

Mr. Leung Tak Ho (Mr. Leung), aged 44, became the Company Secretary, the Chief Financial Officer and an authorised representative of the Company on 3 September 2018. He has over 20 years of experience in auditing, corporate finance, corporate governance and financial management. Mr. Leung holds a Bachelor of Accountancy degree from the City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Leung has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.



CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relations with its employees, business partners, shareholders and investors.

The Company has adopted a corporate governance code on 29 August 2013 which was further amended on 20 December 2018, based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "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") from time to time as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2019, the Company has complied with the Code Provisions.

DIRECTORS

The Board

The Board, led by the Chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

Board Composition

There are currently 6 Directors, all being industry veterans, responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management. The Board comprised/currently comprises the following Directors:

	Age	Field/Industry/Experience
<i>Executive Directors</i>		
Mr. Li Shaohua (<i>Chief Executive Officer (“CEO”)</i>) (<i>appointed on 21 February 2019</i>)	57	Oil and natural gas, corporate management, merger and acquisition
Mr. Poon Wai Yip, Albert	36	Corporate finance
Mr. Wong Sze Chai (<i>appointed as the CEO on 7 January 2019, resigned as a Director and the CEO on 21 February 2019</i>)	58	Banking
<i>Non-executive Director</i>		
Mr. Gao Xiaorui (<i>Chairman</i>)	39	Investment and accounting
<i>Independent Non-executive Directors</i>		
Mr. Lau Shu Yan	38	Finance, auditing and accounting
Mr. Xie Xiaohong	49	Business solutions and consulting services to banking, finance and telecommunication industries
Mr. Lam Tak Leung	66	Business in China

An updated list of the Directors by category identifying their roles is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive Director and expresses the respective roles of each Director.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section “Biographical Details of Directors and Senior Management” on pages 7 to 9 of this annual report.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The independent non-executive Directors play an important role on the Board. Accounting for a half of the Board members, they are experienced professionals in their respective fields and among the independent non-executive Directors, at least one of them has appropriate professional qualifications or accounting or related financial management expertise.

They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole.

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors has represented at least one-third of the Board.

Number of meetings attended/eligible to attend in 2019

During the year, the Board held 4 regular meetings at about quarterly intervals and 4 additional special meetings. As regards general meetings, the Company held the annual general meeting on 3 June 2019.

Attendance of individual Directors at the Board meetings and general meeting during the year ended 31 December 2019 is as follows:

	Regular Board Meetings	Special Board Meetings	General Meeting
<i>Executive Directors</i>			
Mr. Li Shaohua (<i>appointed on 21 February 2019</i>)	4/4	2/4	1/1
Mr. Poon Wai Yip, Albert	4/4	4/4	1/1
Mr. Wong Sze Chai (<i>resigned on 21 February 2019</i>)	N/A	1/4	N/A
<i>Non-executive Director</i>			
Mr. Gao Xiaorui (<i>Chairman</i>)	4/4	4/4	1/1
<i>Independent Non-executive Directors</i>			
Mr. Lau Shu Yan	4/4	4/4	1/1
Mr. Xie Xiaohong	4/4	3/4	1/1
Mr. Lam Tak Leung	4/4	3/4	1/1

Notices of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they have sufficient time to review the board papers and be adequately prepared for the meeting, to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each Director, upon reasonable request, have access to independent professional advice in appropriate circumstances to assist them in performing their duties to the Company, at the Company's expense.

Minutes of all Board meetings, meetings of the audit committee of the Company (the "Audit Committee"), the remuneration committee of the Company (the "Remuneration Committee") and the nomination committee of the Company (the "Nomination Committee") are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail the matters considered and decisions reached, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

According to the current Board practice, any transaction, which the Board has determined to be material, which involves a conflict of interests between a substantial shareholder or a Director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive Directors who, and whose close associates, have no material interest in the said transaction rather than a written resolution. Directors are abstained from voting and not counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and Chief Executive

Mr. Gao Xiaorui is the Chairman of the Company and Mr. Li Shaohua is the CEO of the Company (appointed on 21 February 2019). Before that, Mr. Wong Sze Chai was the CEO of the Company from 7 January 2019 to 21 February 2019.

In accordance with the Directors' Memorandum in Discharging Directors' Duties adopted by the Company on 27 March 2012 (the "Memorandum"), the Company's Chairman is responsible for:

- overseeing the development of the long-term strategies, objectives and policies for the Company;
- ensuring all Directors are properly briefed on matters to be discussed at Board meetings;
- ensuring all Directors receive adequate, accurate, clear, complete and reliable information in a timely manner;
- providing leadership for the Board;
- ensuring that the Board works effectively and performs its responsibilities;
- ensuring that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other Directors for inclusion in the agenda;
- taking primary responsibility for ensuring that good corporate practices and procedures are in place;
- encouraging all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Company;
- encouraging Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that Board decisions fairly reflect Board consensus;
- ensuring appropriate steps are taken to provide effective communications with shareholders and that views of shareholders are communicated to the Board as a whole;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;

- attending the annual general meeting and arranging for the chairman of the Audit Committee, Remuneration Committee and Nomination Committee (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting;
- holding meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present;
- deciding whether a resolution at a general meeting relating purely to a procedural or administrative matter should be excluded from the requirement for voting by poll.

In accordance with the Memorandum, the Company's CEO (referred to as the "Managing Director" in the Memorandum) is responsible for:

- providing leadership to the management for the implementation of the Company's policy and report to the Board;
- overseeing the realisation by the company of the objectives set by the Board;
- providing all such information to the board as necessary to enable the Board to monitor the performance of management;
- putting in place programmes for management development and succession;
- with the Chief Financial Officer (referred to as the "Financial Controller" in the Memorandum), establishing and maintaining proper internal controls and systems as well as disclosure controls and procedures;
- discharging such duties and authority as may be delegated to him/her by the Board;
- being responsible to the Board for the development of the Company and its operation, including the profits, cash and costs of all businesses;
- ensuring that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board;
- advising the Chairman on the allocation of duties to individual directors and the assignment of ad-hoc responsibilities or special tasks to Directors or groups of Directors;
- leading the Company's processes for communicating to, and consulting with, employees;
- leading the Company's public relations, including relations with the Company's shareholders, governments, other public organisations, other companies and the public generally;
- regularly keeping the Chairman informed of all matters that may be of importance to the Company, including its current performance and progress.

Appointments, re-election and removal

Under Bye-law 99 of the Company's new Bye-Laws and Code Provision A.4.2, every Director, including those appointed for a specific term shall be subject to retirement by rotation at the annual general meeting at least once every three years while those retiring Directors shall be eligible for re-election. Under Bye-law 102(B) of the Company's new Bye-Laws, all Directors appointed to fill a casual vacancy should only hold office until the next following annual general meeting and shall then be eligible for re-election at the meeting. Under Code Provision A.4.2, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment.

In accordance with Bye-law 102(B) of the Company's new Bye-Laws and Code Provision A.4.2, Mr. Li Shaohua and Mr. Lam Tak Leung held office until the annual general meeting of the Company held on 3 June 2019 and were re-elected therein, subject to terms agreed otherwise which expire earlier and rotation, removal, vacation or termination of their offices as Directors as set out in the Company's new Bye-Laws or the disqualification to act as a Director under the new Bye-Laws, the laws of Bermuda and the Listing Rules.

Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

Non-executive Directors

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The term of appointment of the non-executive Director is 3 years. The term of appointment of each of the independent non-executive Directors is 3 years.

Nomination of Directors

On 27 March 2012, the Board has established a nomination committee (the “Nomination Committee”) pursuant to the requirements of the revised Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

Details of the Nomination Committee are set out in the sub-section headed “Nomination Committee” below.

Responsibilities of Directors

The Board views that the non-executive Directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board Meetings, taking the lead where potential conflicts of interest arise, scrutinising the Company’s performance and providing independent, constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Board committees of the Company.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which they are charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and Board committee meetings indicates the constant participation of all Directors, including executive, non-executive and independent non-executive and ensures the better understanding of the views of shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

The Board and the Board committees are supplied with adequate, complete and reliable information by the management in a timely manner which enables them to make informed decisions.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the Directors made inquiries where necessary. The Board and the Directors have separate and independent access to the senior management.

All Directors have access to Board papers and related materials in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2019 to 31 December 2019:

Corporate Governance/ Updates on Laws, Rules and Regulation

Read materials

Directors

Executive Directors

Mr. Li Shaohua (<i>appointed on 21 February 2019</i>)	✓
Mr. Poon Wai Yip, Albert	✓
Mr. Wong Sze Chai (<i>resigned on 21 February 2019</i>)	✓

Non-executive Director

Mr. Gao Xiaorui (<i>Chairman</i>)	✓
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Independent Non-executive Directors

Mr. Lau Shu Yan	✓
Mr. Xie Xiaohong	✓
Mr. Lam Tak Leung	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2019, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The Directors' interests in shares and options of the Company as at 31 December 2019 are set out on page 36 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employees, including any employee of the Company or a Director or employee of a subsidiary or holding company of the Company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.



DELEGATION BY THE BOARD

The Board is responsible for formulating strategies and business plans for the Group and is collectively responsible for its success.

Management Functions

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior Board approval.

The functions reserved to the Board and those delegated to management have been formalised and are reviewed periodically to ensure that they remain appropriate to the needs of the Company. The Board has adopted the Memorandum setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management. The Memorandum has also set out a set of principles which the Board should adhere to when it delegates authority.

In accordance with the Memorandum, the types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- reviewing and monitoring the policies and practices on corporate governance.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnel other than the member of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Directors clearly understand the above delegation arrangements of the Company.

During the year, the Board reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors and the senior management of the Company, the code of conduct applicable to employees and directors of the Company and the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Board Committees

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board committees are provided with accurate and sufficient information in timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

During the year, the Board had 3 Board committees, which are the Remuneration Committee, the Audit Committee, and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board committee at the meetings of the committees during the year ended 31 December 2019 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
<i>Executive Directors</i>			
Mr. Li Shaohua (CEO)	N/A	N/A	N/A
Mr. Poon Wai Yip, Albert	N/A	N/A	N/A
Mr. Wong Sze Chai (resigned on 21 February 2019)	N/A	N/A	N/A
<i>Non-executive Director</i>			
Mr. Gao Xiaorui (Chairman)	N/A	N/A	2/2
<i>Independent Non-executive Directors</i>			
Mr. Lau Shu Yan	2/2	3/3	N/A
Mr. Xie Xiaohong	2/2	3/3	2/2
Mr. Lam Tak Leung	2/2	3/3	2/2

Nomination Committee

On 27 March 2012, the Board has established the Nomination Committee pursuant to the requirements of the Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Directors. The Nomination Committee currently comprises 1 non-executive Director and 2 independent non-executive Directors, namely:

Non-Executive Director

Mr. Gao Xiaorui
(Chairman of the Nomination Committee)

Independent Non-Executive Directors

Mr. Xie Xiaohong
Mr. Lam Tak Leung

The Nomination Committee is governed by its terms of reference, which were revised on 29 August 2013 and are closely aligned with the relevant Code Provisions requirements. They are available at both the Company's website and HKEx's website www.hkex.com.hk.

During the year, the Nomination Committee met two times. The attendance of the members thereat is included in the table set out above.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;

- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy.

During the year, the Nomination Committee has conducted the following tasks:

- reviewing the policy for the nomination of Directors;
- reviewing the nomination procedures and process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year;
- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board;
- making recommendations to the Board regarding proposed changes to implement the Company's corporate strategy;
- assessing the independence of the independent non-executive Directors;
- assessing the time required from a Director to perform his responsibilities; and
- reviewing the board diversity policy of the Company including the measurable objectives that it has set for implementing the policy and the progress on achieving those objectives.

The Company consolidated its nomination procedures and selection criteria of directors into the nomination policy of the Company (the "Nomination Policy"), which was approved by the Nomination Committee and confirmed by the Board on 20 December 2018, and was effective on 1 January 2019. The Nomination Policy is as follows:

Objective

1. This Nomination Policy aims to list out the principles and procedures for selection and nomination of members to the Board, to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.
2. The Nomination Committee ("NC") shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as directors to fill casual vacancies.
3. The NC may, as it considers appropriate, nominate a number of candidates more than the number of directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

Selection Criteria

4. The factors listed below would be used as reference by the NC in assessing the suitability of a proposed candidate.

Common Criteria for All Directors

- 4.1. Reputation for integrity, character and integrity
- 4.2. Commitment in respect of available time
- 4.3. The willingness to assume broad fiduciary responsibility
- 4.4. Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- 4.5. Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organisation, industry experience and familiarity with the products and processes used by the Company
- 4.6. Significant business or public experience relevant and beneficial to the Board and the Company
- 4.7. Breadth of knowledge about issues affecting the Company
- 4.8. Ability to objectively analyse complex business problems and exercise sound business judgment
- 4.9. Ability and willingness to contribute special competencies to Board activities
- 4.10. Fit with the Company's culture
- 4.11. Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

Criteria Applicable to Non-executive Directors/Independent Non-executive Directors

- 4.12. Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director (including attendance at and active participation in Board and committee meetings), which will include considering the other responsibility of the relevant candidate (such as other directorships held in public companies the securities of which are listed any securities market in Hong Kong or overseas and other major appointments, if any) and the effort and time that may be required by the candidate in fulfilling such role
- 4.13. Accomplishments of the candidate in his/her field
- 4.14. Outstanding professional and personal reputation
- 4.15. The candidate's ability to meet the independence criteria for directors established in the Listing Rules

5. These factors are for reference only, and not meant to be exhaustive and decisive. The NC has the discretion to nominate any person, as it considers appropriate.
6. Retiring directors, save for those who have served as independent non-executive directors for a period of 9 consecutive years, are eligible for nomination by the Board to stand for re-election at a general meeting. Any independent non-executive director of the Company who has served such role for a period of 9 consecutive years are, subject to the NC having satisfied that he/she still maintains his/her independence and that his/her continuation to serve in such role is in the interest of the Company and its shareholders as a whole, be eligible for nomination by the Board to stand for re-election at a general meeting.
7. Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as such directorship of the Company and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as such directorship.
8. The NC may request candidates to provide additional information and documents, if considered necessary.

Nomination Procedures

9. The Human Resources team of the Company shall be responsible to liaise with the Company Secretary to call a meeting of the NC, and invite nominations of candidates from Board members if any, for consideration by the NC prior to its meeting. The NC may also put forward candidates who are not nominated by Board members.
10. For filling a casual vacancy, the NC shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the NC shall make nominations to the Board for its consideration and recommendation. The NC follows the procedures below when considering nomination of directors:
 - 10.1. the NC will evaluate the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy or the directorship the candidate is proposed to take (e.g. independence status in the case of an independent non-executive director);
 - 10.2. the NC will consider the role and capabilities required for the particular vacancy or the directorship;
 - 10.3. the NC will identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors, and will to the extent possible select from a broad range of candidates who are outside the Board's circle of contacts in accordance with the Company's Board Diversity Policy;
 - 10.4. where appropriate, the NC will conduct interview with the relevant candidate to evaluate whether he/she meets the aforesaid selection and nomination criteria, and verify the information provided by the candidate;
 - 10.5. the NC will make recommendations to the Board on the appointment or re-appointment of directors.

11. The NC shall ensure the selection process should be transparent and fair.
12. For the avoidance of doubt, the ultimate responsibility for selection and appointment of directors rests with the entire Board.
13. Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.
14. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, a circular will be sent to shareholders. The names, brief biographies (including qualifications and relevant experience), independence (for independence non-executive directors), proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.
15. “Procedures for Shareholders to propose a person for election as a director” shall apply in respect of the nomination by shareholder(s) of person for election as director.
16. A candidate is allowed to withdraw his/her candidature at any time before the despatch of circular to shareholders for election at the general meeting by serving the Company a notice in writing provided that such notice shall be served on the Company not less than 3 business days prior to the despatch of the said circular.
17. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

Confidentiality

18. Unless required by law or any regulatory authority, under no circumstances shall a member of the NC or a staff member of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to shareholders, as the case may be, is issued. Following the issue of the circular, the NC or other staff member of the Company, approved by the NC may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and candidates should not be disclosed.

Review

19. In addition to meeting for the purpose of considering Board appointment(s), the NC shall from time to time (and at least once annually) meet:
 - 19.1. to review and consider the performance of the Board, including but not limited to looking at benchmarking how the Company’s Board measures up against the other boards in Hong Kong of peer issuers;
 - 19.2. to consider the need to refresh the Board composition regularly to avoid entrenchment and to attract fresh thinking;
 - 19.3. to consider Board succession planning and conduct periodical reviews of the plan to ensure the long term success of the Company;
 - 19.4. to monitor and review this Nomination Policy to ensure that it remains relevant to the Company’s needs and reflects both current regulatory requirements and good corporate governance practice.

20. The NC will continually review this Nomination Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Nomination Policy at any time.
21. The Board may in accordance with the requirements of the relevant laws and regulations disclose in the Company's Corporate Governance Report annually of any information regarding this Nomination Policy, procedures and objectives made for implementation of this Nomination Policy and the progress made towards achieving the objectives."

Board Diversity Policy

The Board has adopted its board diversity policy (the "Board Diversity Policy") on 29 August 2013, which was revised and updated with effect from 1 January 2019 as approved by the Board on 20 December 2018. The Board Diversity Policy sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development, and the Board diversity also helps to achieve a diversity of views and perspectives among members of the Board, to enhance decision making capacity, and to fairly and effectively safeguard the interests of various stakeholders, especially the long term shareholders interests of the Company.

The Board has set measurable objectives based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service to select candidates. The ultimate decision for appointment and succession will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the Board Diversity Policy as appropriate to ensure the effectiveness of the same. It will discuss revisions that may be required, and recommend any such revisions to the Board for consideration and approval. It will also monitor the implementation of the Board Diversity Policy.

The Company considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, and professional background and skills of the Directors.

Remuneration Committee

Remuneration of Directors

The Remuneration Committee was established pursuant to Rule 3.25 of the Listing Rules. It makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which were adopted by the Board on 27 March 2012 pursuant to the revised Code. The terms of reference are made available on the Company's website www.perfectech.com.hk and HKEx's website www.hkex.com.hk.



The Remuneration Committee currently comprises 3 members, namely:

Independent Non-executive Directors

Mr. Lam Tak Leung

(Chairman of the Remuneration Committee)

Mr. Lau Shu Yan

Mr. Xie Xiaohong

During the year, the Remuneration Committee met three times. The attendance of the members thereat is included in the table set out above.

The work performed by the Remuneration Committee during the year ended 31 December 2019 included the followings:

- making recommendations to the Board on the remuneration policy and structure of Directors and senior management;
- assessing performance of executive Directors;
- approving specific remuneration packages of all executive Directors and senior management;
- making recommendations to the Board of the remuneration of non-executive Directors; and
- conducting the salary review of the Group for the year ended 31 December 2019.

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for executive Directors and non-executive Directors:

Emolument Policy for Executive Directors

1. A proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive Directors.
3. The performance-related elements of remuneration should be designed to align the executive Directors' interests with those of shareholders and to give the Directors keen incentives to perform at the highest levels.



4. Factors for defining performance-based remuneration:
 - (a) Eligibility for annual bonuses and any upper limits
 - (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business
 - (c) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance
 - (d) Examples of performance indicators:
 - (i) share price
 - (ii) net earnings figure

Emolument Policy for Non-executive Directors

1. Levels of emolument of non-executive Directors should reflect the time commitment and responsibilities of the role.
2. Non-executive Directors should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in note 10(a) to the financial statements.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring effective and adequate systems are in place for risk management and internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.



The Audit Committee currently comprises the following members, namely:

Independent Non-executive Directors

Mr. Lau Shu Yan

(Chairman of the Audit Committee)

Mr. Lam Tak Leung

Mr. Xie Xiaohong

Mr. Lau Shu Yan have professional qualifications in accounting.

The Audit Committee is governed by its terms of reference, which have been revised by the Board on 26 August 2015 pursuant to the revised Code. The terms of reference are made available on the Company's website www.perfectech.com.hk and HKEx's website www.hkex.com.hk.

During the year, the Audit Committee met two times. The attendance of the members thereat is included in the table set out above.

The Audit Committee meetings are normally attended by the Company's Chief Financial Officer and the external auditor, for discussion of the audit of the Company's annual results only. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during the year ended 31 December 2019 included consideration of the following matters:

- the completeness and accuracy of the 2018 annual and 2019 interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- detailed analysis of various aspects of the Company's financial performance;
- investment policies and possible impact of certain investment transactions;
- the audit fees payable to external auditors, the scope and timetable of the audit for the year ended 31 December 2019;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. HLM CPA Limited as the external auditors; and
- reviewed and discussed with the management the internal control and risk management systems.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee is also supported by the external auditor.



ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Board is responsible for the integrity of the financial information of the Group. The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the “Independent Auditor’s Report” on pages 43 to 48 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 49 to 122 of this annual report on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the “Management Discussion and Analysis” set out on pages 5 to 6 of this annual report.

The management provides the Board with sufficient explanation and information, such as the Group’s major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company’s performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

Risk Management and Internal Controls

During the year, the Group has established and maintained an appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis.

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: the management would identify ownership of risks, business objectives and risks that could affect the achievement of objectives by examining reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Audit Committee and the Board if any significant risks are discovered; the internal audit function of the Company would also conduct risk assessments of the Group and report to the Board via Audit Committee if significant risks are identified;



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- Evaluation: the Audit Committee would analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly, having considered the opinions of the internal audit function of the Company and the management (if any); and
- Management: the Audit Committee would consider the risk responses, and ensure effective communication to the Board regarding the risks identified and the corresponding remedial plans and recommendations, and the Board via the Audit Committee would on an on-going basis monitor the residual risks.

Based on the risk assessments conducted during the year ended 31 December 2019, no significant risk was identified.

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organisations of the Treadway Commission (“COSO”) 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group;
- Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group’s objectives, forming a basis for determining how risks should be managed;
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out;
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls; and
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Based on the internal control reviews conducted during the year ended 31 December 2019, no significant control deficiency was identified.

In order to enhance the Group’s system of handling and disseminating inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements inside information procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- the access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;
- confidentiality agreements are in place when the Group enters into significant negotiations; and
- the executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

The Group has an Internal Audit (“IA”) function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group’s daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards. Such review has been conducted for the year ended 31 December 2019.

The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and ensures review of the effectiveness of these systems has been conducted. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Regarding the review of the risk management and internal control systems, apart from the works of the IA function, the management also examine reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Board if any major internal control failings or weaknesses were discovered. External auditors would also report on the weakness in the Group’s internal control and accounting procedure which have come to their attention during the course of audit.

Both the Audit Committee and the Board will review the Company’s internal control and risk management systems at least annually and such review has been conducted for the year ended 31 December 2019 having taken into account the results of the review conducted by the IA function, and the information from the management and the external auditors (if any).

The Board, through its reviews and the reviews made by IA function and Audit Committee, has not identified any significant areas of concern, risks or major internal control failings or weaknesses, and concluded that the risk management and internal control systems were effective and adequate. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

In any event, in case any material internal control defects are identified, the Audit Committee will review the actions performed or the plans to be carried out by the management in addressing the issues and defects regarding the internal control and risk management systems. The corresponding remedial plans and recommendations to resolve such defects will then be submitted to the Board for consideration.



Auditor's Remuneration

The Company's external auditor is HLM CPA Limited. For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Services Rendered	Fees Paid/ Payable HK\$'000
Audit services	<u>HK\$1,075</u>

COMPANY SECRETARY

Mr. Leung Tak Ho is the Company Secretary of the Company. The Company Secretary is responsible to the Board and reports to the Chairman from time to time. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed.

The Company Secretary is required to take no less than 15 hours of relevant professional training during the year ended 31 December 2019. Mr. Leung Tak Ho fulfilled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, were available to answer questions at the shareholders' meetings.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

Shareholders' Rights to Convene a Special General Meeting

Further to the Companies Act 1981 of Bermuda and under Bye-law 62 of the new Bye-Laws of the Company, a special general meeting can be convened on requisition.



Shareholders' Communication Policy

Based on the requirement of revised Code, a Shareholders Communication Policy was formulated and adopted on 27 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the said policy had been reviewed by the Board at the board meeting held on 30 March 2018.

The most recent shareholders' meeting was the annual general meeting held on 3 June 2019 at 24/F, Admiralty Centre 1, 18 Harcourt Road, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated financial statements and reports of the Directors and auditors for the year ended 31 December 2018;
- re-electing Director who retired from office by rotation and authorising the Board to fix the remunerations of the Directors;
- appointing the Company's external auditor and authorising the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company ("General Mandate");
- passing a repurchase mandate to allow the Directors to repurchase shares of the Company ("Repurchase Mandate"); and
- passing a general extension mandate to allow the Directors, after the grant of Repurchase Mandate, to add to the General Mandate any shares repurchased pursuant to the Repurchase Mandate (the "General Extension Mandate").

Constitutional Documents

There was no significant change in the Company's constitutional documents during the year ended 31 December 2019.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website <http://www.perfectech.com.hk>.

Enquiries and proposals to be put forward at shareholders' meetings can also be sent to the Board or senior management by contacting the Investment Department at (852) 39650088, via e-mail to info@perfectech.com.hk, or directly through the questions and answers session at shareholders' meetings.



REPORT OF THE DIRECTORS

The Directors present their annual report (the “Report of the Directors”) and the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

BUSINESS REVIEW

Details of the activities during the year ended 31 December 2019 including, a fair review of the business of the Group with financial performance indicators, including revenue, loss for the year attributable to owners of the Company, loss per share, gearing ratio and net asset value per share, and an indication of likely future development in the Group’s business are explained in the “Chairman’s Statement” and “Management Discussion and Analysis” set out on pages 3 to 6 of this annual report. The above financial performance indicators reflect the Group’s profitability, value and liquidity as well as how the Group finance its operations and build its capital structures.

The Group’s financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including foreign currency risk, credit risk, and liquidity risk. The risk management policies and practices of the Group are set out in note 34 to the financial statements.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers, employees and other stakeholders to meet its immediate and long-term goals. During the year, there was no material and significant dispute between the Group and its suppliers, customers, employees and/or other stakeholders.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 49 of this annual report.

No interim dividend was paid to the shareholders during the year. The Board did not recommend the payment of a final dividend for the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 95% of the total revenue of the Group and the largest customer accounted for approximately 82% of the total revenues of the Group. The Group has business relationship with its largest customer and most of the major customers for more than 10 years. For the credit period granted to the customers, please refer to note 19 to financial statements. The material payment from the customers has been settled within the credit time frame.

The five largest suppliers of the Group in aggregate accounted for approximately 43% of the total purchases of the Group and the largest supplier accounted for approximately 21% of the total purchases of the Group. The Group has had a business relationship with its largest supplier and most of the major suppliers for more than 10 years. For the credit period granted by the suppliers, please refer to note 21 to financial statements. The material payables are paid within the credit time frame.

At no time during the year had a director, an associate of a director or a shareholder of the Company and to the best knowledge of the Directors owned more than 5% of the number of issued shares of the Company have an interest in any of the Group's five largest customers and/or five largest suppliers.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended approximately HK\$10,598,000 on property, plant and equipment during the year.

Details of the above and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARES ISSUED IN THE YEAR

No shares of the Company were issued during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company had no reserve available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account in the amount of approximately HK\$118,895,000 as at 31 December 2019 may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive Directors

Mr. Li Shaohua (*CEO*) (*appointed on 21 February 2019*)
Mr. Poon Wai Yip, Albert
Mr. Wong Sze Chai (*CEO*) (*resigned on 21 February 2019*)

Non-executive Director

Mr. Gao Xiaorui (*Chairman*)

Independent non-executive Directors

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Lam Tak Leung

In accordance with Bye-law 99 of the new Bye-Laws of the Company and the Code on Corporate Governance of the Company, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting at least once every three years. All retiring Directors shall be eligible for re-election.

DIRECTOR'S SERVICE CONTRACTS

No director has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All independent non-executive Directors had been/have been appointed for a term of approximately three years.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 December 2019, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the SFO as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in the shares of the Company

Director	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Gao Xiaorui	Interest of controlled corporation	119,297,041	—	119,297,041 (a)	36.49

Note: (a) Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director, and 10% by Mr. Wu Zhenlong.

Other than as disclosed above, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO at 31 December 2019.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the financial statements. There were no movements in the Company's share options nor any outstanding share options during the years ended 31 December 2018 and 2019.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares and Options", as at 31 December 2019, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of their relevant interests in the issued shares of the Company as follows:

Long position in the shares of the Company

Shareholder	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Zhai Jun	Interest of controlled corporation	125,297,040	—	125,297,040 (1)	38.33
Star Fly Limited	Beneficial owner	125,297,040	—	125,297,040 (1)	38.33
Fresh Choice Holdings Limited	Beneficial owner	119,297,041	—	119,297,041 (2)	36.49

Notes:

- Star Fly Limited is a limited company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun.
- Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director and 10% by Mr. Wu Zhenlong.



REPORT OF THE DIRECTORS



CONFIRMATION OF INDEPENDENCE

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

CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report, the Company has adopted throughout the year ended 31 December 2019 the Corporate Governance Code and Corporate Governance Report (“Code”) set out in Appendix 14 of the Listing Rules as its own corporate governance code.

Details of the Company’s corporate governance practices can be found in the Corporate Governance Report on pages 10 to 33 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its shares whether on the Stock Exchange or otherwise.

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are decided by the Board (for the non-executive directors) or by the Remuneration Committee (for the executive directors), having regard to the Company’s operating results, individual performance, background, qualification, skills, experience, time commitment and responsibilities of the relevant directors, comparable market statistics and employment conditions elsewhere in the Group.

The Company has adopted a share option scheme as an incentive to its directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s new Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CHANGE OF DIRECTORS' PARTICULARS

Change in particulars of Directors since the date of the Interim Report 2019 of the Company and up to the date of this annual report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

The appointment letter entered into between the Company and each of Mr. Gao Xiaorui, Mr. Lau Shu Yan and Mr. Xie Xiaohong in relation to their appointment as Directors expired on 28 November 2019, and the Company entered into a new appointment letter with each of the above Directors on 28 November 2019 for a term of three years commencing from 28 November 2019, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's new Bye-Laws. Pursuant to their respective appointment letters, each of Mr. Gao Xiaorui, Mr. Lau Shu Yan and Mr. Xie Xiaohong is entitled to a remuneration of HK\$15,000 per month which has been reviewed by the remuneration committee and determined by the Board with reference to their duties and responsibilities with the Company and the prevailing market situation.

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2019.

ENVIRONMENTAL POLICIES

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as encouraging use of recycled paper for printing and copying, double-sided printing and copying, and switching off idle lightings, air conditioning and electrical appliances to reduce energy consumption.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company has complied with all the relevant laws and regulations that have a significant impact on the Company, including the Hong Kong Companies Ordinance, SFO and the Listing Rules. Compliance procedures are in place to ensure compliance with relevant laws and regulations. Our professional employees attend on-going professional development programs in order to keep them abreast of the latest development of the laws and regulations. External legal advisors are engaged to advise on the compliance matters if and when necessary.

AUDITOR

The financial statements for the year ended 31 December 2019 have been audited by the Company's auditor, Messrs. HLM CPA Limited, Certified Public Accountants. HLM CPA Limited shall retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of HLM CPA Limited will be proposed at the forthcoming annual general meeting.



REPORT OF THE DIRECTORS



AUDIT COMMITTEE

The annual results for the year have been reviewed by the Audit Committee of the Company, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed above and in note 31 to the financial statements and the grant letters issued pursuant to the scheme, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Bye-law 178 of the new Bye-Laws of the Company provides that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties or supposed duty in their respective offices or trusts. The Company has also taken out and maintained directors' liability insurance which provides appropriate cover for the directors of the Company and directors of the subsidiaries of the Group.

Such permitted indemnity provisions have been in force throughout the year under review and is currently in force at the time of approval of this report.

DIVIDEND POLICY

The Company has confirmed and consolidated its dividend policy (the "Dividend Policy") on 20 December 2018, which aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

The Dividend Policy is as follows:

PURPOSE

1. This Dividend Policy aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

FACTOR(S) TO BE CONSIDERED FOR DECLARATION OF DIVIDENDS

2. In considering whether to declare any dividend, the Board shall consider factors in all aspects whether on the operating results, cash flow, financial condition and capital requirements of the Group and the interests of the Shareholders of the Company, including but not limited to:-
 - 2.1. the Company's actual and expected financial performance;
 - 2.2. retained earnings and distributable reserves of the Company and each of the members of the Group;
 - 2.3. the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
 - 2.4. any restrictions on payment of dividends that may be imposed by the Group's lenders;
 - 2.5. the Group's expected working capital requirements and future expansion plans;
 - 2.6. general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
 - 2.7. any other factors that the Board deem appropriate.

PRINCIPLES IN RELATION TO DECLARATION OF DIVIDENDS

3. If the Group records a profit and the Board, having considered factors of all aspects (including but not limited to those factors set out in paragraph 2), is satisfied that the declaration and distribution of dividends does not affect the Group's normal operations, and subject to compliance with any restrictions under the Companies Law of Bermuda and the new Bye-Laws of the Company:
 - 3.1. the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders");
 - 3.2. yet, any such declaration and payment of dividends shall remain to be determined at the sole discretion of the Board.
4. Subject to the new Bye-Laws of the Company and all laws and regulations applicable to the Company,
 - 4.1. the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board;
 - 4.2. the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company.
5. This Dividend Policy and the declaration and/or payment of dividends under this Dividend Policy are subject to the Board's continuing determination that this Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all laws and regulations applicable to the Group.
6. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy.



REPORT OF THE DIRECTORS

7. The Board will continually review this Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

On behalf of the Board

Li Shaohua

Director

Hong Kong, 29 April 2020

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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181 Johnston Road, Wanchai, Hong Kong
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TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 49 to 122, which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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



KEY AUDIT MATTERS *(Cont'd)*

Valuation of investment property

Key audit matter

We identified the valuation of investment property as a key audit matter due to significance of the balance to the consolidated financial statements as a whole, combined with significant judgement associated with determining the fair value. As disclosed in notes 14 and 15 to the consolidated financial statements, the Group transferred a property, plant and equipment at fair value of HK\$42,900,000 to investment property on 31 March 2019. The management has engaged an independent professional property valuer (the "Valuer") to perform the valuation of the investment property as at 31 March 2019 and 31 December 2019. The fair value of the investment property at the date of transfer and at the end of reporting period were determined with reference to valuation reports of the Valuer which were reviewed and accepted by the management.

At 31 December 2019, the fair value of the investment property was HK\$39,900,000. The decrease in fair value of investment property of HK\$3,000,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

How our audit addressed the key audit matter

Our audit procedures in relation to the valuation of investment property included:

- examining and reviewing the valuation report issued by the Valuer;
- evaluating the qualification, independence and objectivity of the Valuer; and
- obtaining an understanding from the Valuer and management about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgement on key inputs and data used in the valuations and evaluating the valuation methodology used and the key estimates and key input adopted in the valuation.

We found that the assumptions and key inputs used by the Valuer and management were reasonable.



KEY AUDIT MATTERS *(Cont'd)*

Valuation of inventories

Key audit matter

We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole. There is a significant degree of judgement by the management in determining the net realisable value ("NRV") of the inventories.

As disclosed in note 18 to the consolidated financial statements, NRV represents the latest selling prices for inventories less all estimated costs to completion and costs necessary to make the sale. Management's estimation of the NRV was primarily based on the latest selling prices and current market conditions. As at 31 December 2019, the carrying amount of inventories was HK\$16,196,000. The management carried out a review of the inventories at the end of the reporting period.

How our audit addressed the key audit matter

Our audit procedures in relation to assessing the appropriateness of the carrying value of the inventories included:

- testing the operating effectiveness of controls associated with the existence and conditions of inventories;
- reviewing how management estimated the NRVs of inventories and evaluating the historical accuracy of the allowance estimations made by the management;
- discussing with management and assessing the bases of management's estimations of subsequent selling price, costs to completion and costs necessary to make the sale;
- reviewing a list of obsolete and slow-moving inventories and assessing the allowance made on obsolete and slow-moving items; and
- verifying the value of a sample of inventories to confirm that the inventories were held at the lower of cost and NRV.

Based on our procedures described, we found the estimations of management in relation to valuation of inventories were supportable by available evidence.

KEY AUDIT MATTERS *(Cont'd)*

Valuation of trade receivables

Key audit matter

We identified the valuation of trade receivables as a key audit matter due to significant management judgement involved in the identification and measurement of loss allowance for expected credit loss ("ECL"). HKFRS 9 *Financial Instruments* ("HKFRS 9") requires the Group's credit losses estimated based on an expected loss model rather than an incurred loss model.

As disclosed in note 19 to the consolidated financial statements, the Group has trade receivables of HK\$9,675,000, after recognising an allowance for ECL of HK\$79,000 as at 31 December 2019.

The assessment of ECL for trade receivables involves significant management judgements and estimates on the amount of ECL at the reporting date.

At each reporting date, the management assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of a default occurring over the expected life between the reporting date and the date of initial recognition. The management considers reasonably supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

How our audit addressed the key audit matter

Our procedures in relation to valuation of trade receivables included:

- inquiring the management to understand the approach applied on ECL model of trade receivables;
- understanding key controls on how the management estimates impairment for trade receivables;
- assessing the appropriateness of the ECL provisioning methodology; examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including background information of the customers, past settlement records of the customers, concentration risk of customers and the Group's actual loss experience;
- evaluating the management's assessment on the individual significant trade receivables that were past due as at 31 December 2019 with reference to supporting evidence such as repayment history of the customers; and
- checking the subsequent settlement of trade receivable after the year end date.

We found that the estimation and judgement made by management in respect of the allowance for ECL of trade receivables were supportable by the credible evidence.

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

HLM CPA Limited

Certified Public Accountants

Ng Fai Fiona

Practising Certificate Number: P04986

Hong Kong, 29 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	5 & 6	141,936	145,251
Cost of sales		<u>(111,395)</u>	<u>(130,158)</u>
Gross profit		30,541	15,093
Other income, gains and losses	7	7,188	4,848
Distribution costs		(3,648)	(3,168)
Loss from changes in fair value of an investment property	15	(3,000)	(1,000)
Administrative expenses		(81,303)	(54,246)
Finance costs	8	<u>(2,197)</u>	<u>(124)</u>
Loss before tax	9	(52,419)	(38,597)
Income tax (expense) credit	11	<u>(4,838)</u>	<u>217</u>
Loss for the year		<u>(57,257)</u>	<u>(38,380)</u>
Other comprehensive income (expense) for the year, net of tax			
<i>Item that will not be reclassified to profit or loss:</i>			
Surplus on revaluation of leasehold land and building held for own use upon change of use to earning rental		16,701	—
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of overseas operations		<u>(483)</u>	<u>(2,105)</u>
Other comprehensive income (expense) for the year, net of tax		<u>16,218</u>	<u>(2,105)</u>
Total comprehensive expense for the year		<u>(41,039)</u>	<u>(40,485)</u>
Loss for the year attributable to:			
Owners of the Company		(55,038)	(36,424)
Non-controlling interests		<u>(2,219)</u>	<u>(1,956)</u>
Loss for the year		<u>(57,257)</u>	<u>(38,380)</u>
Total comprehensive expense for the year attributable to:			
Owners of the Company		(38,740)	(38,268)
Non-controlling interests		<u>(2,299)</u>	<u>(2,217)</u>
Total comprehensive expense for the year		<u>(41,039)</u>	<u>(40,485)</u>
Loss per share	13		
Basic (HK cents per share)		<u>(16.84)</u>	<u>(11.14)</u>
Diluted (HK cents per share)		<u>(16.84)</u>	<u>(11.14)</u>



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	61,455	85,194
Investment property	15	39,900	—
Right-of-use assets	16	15,051	—
Deferred tax assets	17	3,688	8,678
		<u>120,094</u>	<u>93,872</u>
CURRENT ASSETS			
Inventories	18	16,196	11,866
Trade and other receivables	19	15,415	21,472
Tax recoverable		855	664
Bank balances and cash	20	70,403	73,946
		<u>102,869</u>	<u>107,948</u>
CURRENT LIABILITIES			
Trade and other payables	21	21,541	17,800
Lease liabilities	22	415	—
Amount due to a former director of subsidiaries	23	47,587	—
Bank borrowings	24	5,000	7,000
Bank overdrafts	20	—	2,478
Tax liabilities		64	—
		<u>74,607</u>	<u>27,278</u>
NET CURRENT ASSETS		<u>28,262</u>	<u>80,670</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>148,356</u>	<u>174,542</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	17	—	62
Lease liabilities	22	14,915	—
		<u>14,915</u>	<u>62</u>
NET ASSETS		<u>133,441</u>	<u>174,480</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CAPITAL AND RESERVES			
Share capital	25	32,692	32,692
Reserves		<u>86,879</u>	<u>125,619</u>
Equity attributable to owners of the Company		119,571	158,311
Non-controlling interests		<u>13,870</u>	<u>16,169</u>
TOTAL EQUITY		<u>133,441</u>	<u>174,480</u>

The consolidated financial statements on pages 49 to 122 were approved and authorised for issue by the Board of Directors on 29 April 2020 and are signed on its behalf by:

Mr. Gao Xiaorui
Director

Mr. Li Shaohua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Share premium	Capital redemption reserve	Translations reserve	Property revaluation reserve	Retained profits/ (Accumulated loss)	Equity attributable to equity holders of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	32,692	118,895	10,337	(1,283)	—	35,938	196,579	18,922	215,501
Loss for the year	—	—	—	—	—	(36,424)	(36,424)	(1,956)	(38,380)
Other comprehensive expense for the year:									
Exchange differences on translation of overseas operations	—	—	—	(1,844)	—	—	(1,844)	(261)	(2,105)
Total comprehensive expense for the year	—	—	—	(1,844)	—	(36,424)	(38,268)	(2,217)	(40,485)
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	(536)	(536)
At 31 December 2018	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>(3,127)</u>	<u>—</u>	<u>(486)</u>	<u>158,311</u>	<u>16,169</u>	<u>174,480</u>
At 1 January 2019	32,692	118,895	10,337	(3,127)	—	(486)	158,311	16,169	174,480
Loss for the year	—	—	—	—	—	(55,038)	(55,038)	(2,219)	(57,257)
Other comprehensive income (expense) for the year:									
Surplus on revaluation of leasehold land and building held for own use upon change of use to earning rental	—	—	—	—	16,701	—	16,701	—	16,701
Release of translation reserve upon deregistration of subsidiaries (Note 26)	—	—	—	(201)	—	—	(201)	(52)	(253)
Exchange difference on translation of current overseas operation	—	—	—	(202)	—	—	(202)	(28)	(230)
Exchange differences on translation of overseas operations	—	—	—	(403)	—	—	(403)	(80)	(483)
Total comprehensive (expense) income for the year	—	—	—	(403)	16,701	(55,038)	(38,740)	(2,299)	(41,039)
At 31 December 2019	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>(3,530)</u>	<u>16,701</u>	<u>(55,524)</u>	<u>119,571</u>	<u>13,870</u>	<u>133,441</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
OPERATING ACTIVITIES			
Loss before tax		(52,419)	(38,597)
Adjustments for:			
Interest expenses	8	2,197	124
Interest income	7	(664)	(192)
Depreciation of property, plant and equipment	14	7,528	7,055
Depreciation of right-of-use assets	16	952	—
(Gain) loss on disposal of property, plant and equipment	7	(531)	1,176
Gain on termination of a lease	7	(1)	—
Loss from changes in fair value of an investment property	15	3,000	1,000
Operating cash flows before movements in working capital		(39,938)	(29,434)
Decrease in trade and other receivables		6,057	1,714
(Increase) decrease in inventories		(4,330)	5,497
Increase (decrease) in trade and other payables		3,741	(6,971)
Cash used in operations		(34,470)	(29,194)
Hong Kong Profits Tax paid, net		(6)	(7,940)
PRC Enterprise Income Tax paid, net		(28)	(30)
NET CASH USED IN OPERATING ACTIVITIES		(34,504)	(37,164)



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
INVESTING ACTIVITIES			
Interest received		664	192
Purchase of property, plant and equipment	14	(10,598)	(3,048)
Proceeds on disposal of property, plant and equipment		584	2,605
		<u>584</u>	<u>2,605</u>
NET CASH USED IN INVESTING ACTIVITIES			
		<u>(9,350)</u>	<u>(251)</u>
FINANCING ACTIVITIES			
Dividend paid to non-controlling interest		—	(536)
Interest paid		(511)	(124)
Advance from a former director of subsidiaries	36	46,886	—
New bank borrowings raised	36	15,500	7,000
Repayment of bank borrowings	36	(17,500)	—
Lease payments for right-of-use assets	36	(1,500)	—
		<u>(1,500)</u>	<u>—</u>
NET CASH FROM FINANCING ACTIVITIES			
		<u>42,875</u>	<u>6,340</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		<u>(979)</u>	<u>(31,075)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY			
Effect of change in foreign exchange rates		71,468	103,498
		<u>(86)</u>	<u>(955)</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
		<u>70,403</u>	<u>71,468</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank overdrafts		—	(2,478)
Bank balances and cash		70,403	73,946
		<u>70,403</u>	<u>73,946</u>
		<u>70,403</u>	<u>71,468</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office is Victoria Place, 5th Floor 31 Victoria Street Hamilton HM 10 Bermuda and the principal place of business is 15/F, Sun Hing Industrial Building, 46 Wong Chuk Hang Road, Aberdeen, Hong Kong.

The principal activities of the Group are the manufacture and sale of novelties, decoration and toy products.

The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except for HKFRS 16 *Leases* (“HKFRS 16”), the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Cont’d)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard and interpretation to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application on 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Cont’d)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont’d)

Transition and summary of effects arising from initial application of HKFRS 16 (Cont’d)

As a lessee (Cont’d)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on the lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with similar remaining terms for similar classes of underlying assets in similar economic environments; and
- iv. used hindsight based on facts and circumstances as at the date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK\$16,233,000 and right-of-use assets of approximately HK\$16,233,000 as at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied ranges from 3% to 6.08% per annum.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New and Amendments to HKFRSs that are mandatorily effective for the current year
(Cont’d)

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* (Cont’d)

Transition and summary of effects arising from initial application of HKFRS 16 (Cont’d)

As a lessee (Cont’d)

	At 1 January 2019 HK\$’000
Operating lease commitments disclosed as at 31 December 2018	32,355
Less: Recognition exemption — short-term leases and lease of low-value assets	<u>(3,286)</u>
	29,069
Less: total future interest expenses	<u>(12,836)</u>
	16,233
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019 (Notes 16 and 36)	<u>16,233</u>
Analysed as	
Current	741
Non-current	<u>15,492</u>
	<u>16,233</u>

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Cont’d)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont’d)

Transition and summary of effects arising from initial application of HKFRS 16 (Cont’d)

As a lessee (Cont’d)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$’000	Adjustments HK\$’000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$’000
Non-current assets			
Right-of-use assets	—	16,233	16,233
Current liabilities			
Lease liabilities	—	741	741
Non-current liabilities			
Lease liabilities	—	15,492	15,492

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised *Conceptual Framework for Financial Reporting* was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRSs mentioned below, the Directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share based payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventory* or value in use in HKAS 36 *Impairment of assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

The principal accounting policies are set out below.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Investment in subsidiaries

Investments in subsidiaries presented in the Company's statement of financial position included in note 38 to the consolidated financial statements are stated at cost less identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9 *Financial Instrument* (“HKFRS 9”). In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue recognition

- Revenue from sale of novelties, decoration and toy products are recognised at a point in time when the goods are delivered to and have been accepted by customers.
- Rental income from investment property under operating lease are recognised on a straight-line basis over the terms of the relevant leases.
- Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019



3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis, at the following rates per annum:

Leasehold land and buildings	3% or the remaining leases term
Leasehold improvement on factory premises	5–33%
Furniture, fixtures and office equipment	15–33%
Plant, machinery and moulds	10–20%
Motor vehicles	25–33%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Transfer from owner-occupied property to investment property carried at fair value

If a property becomes an investment property because its use has changed as evidenced by the end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises, director's accommodation, warehouses, plant and machinery that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Cont'd)

Right-of-use assets (Cont'd)

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

Refundable rental deposits

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

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Cont'd)

Lease liabilities (Cont'd)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.;
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019



3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2) (Cont'd)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

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

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme for Hong Kong employees and state-managed retirement benefits schemes for employees in the People's Republic of China (the "PRC") are recognised as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Effective Interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development costs (Cont'd)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

The Group recognises a loss allowance for expected credit loss (“ECL”) on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balance.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 120 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019



3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than one year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

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

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets *(Cont'd)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

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

Financial liabilities

Financial liabilities (including trade and other payables, lease liabilities, amount due to a former director of subsidiaries, bank borrowings and bank overdrafts) are subsequently measured at amortised cost using the effective interest method.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019



3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Related parties

A related party is a person or an entity that is related to the Group.

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group and the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entities and the Group are the member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

- (i) the person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment property

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment property that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment property are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment property, the directors have determined that the presumption that the carrying amounts of investment property measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment property as the Group is not subject to any income taxes on disposal of its investment property.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

The Group's carrying amounts of property, plant and equipment as at 31 December 2019 was approximately HK\$61,455,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 3% to 33% per annum, commencing from the date the assets is placed into productive use. The estimated useful life that the Group places the assets into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Fair value of investment property

At the end of the reporting period, the Group's investment property is stated at fair value of HK\$39,900,000 (2018:HK\$Nil) based on the valuation performed by an independent qualified professional valuer (the "Valuer") as disclosed in the note 15 to the financial statements. In determining the fair value, the Valuer have based on method of valuation which involves certain estimates. In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY *(Cont'd)*

Key sources of estimation uncertainty *(Cont'd)*

Provision of ECL for trade receivables

The loss allowance for ECL on trade receivables is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The management of the Company has assessed the ECL allowance of all trade receivable and considered it as insignificant and therefore it did not result in an loss allowance for ECL during the year.

The information about the loss allowance for ECLs and the Group's impairment loss regarding trade receivables are disclosed in note 19.

Recoverability of Deferred Tax Assets

As at 31 December 2019, a deferred tax asset of HK\$3,688,000 in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The recoverability of deferred tax assets requires the Group to estimate the probability of taxable profits expected to arise from future operations. At the end of each reporting period, management evaluates the recoverability of deferred tax assets by way of profit forecast when necessary.

Impairment on inventories

The management of the Group reviews an aging analysis at each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides impairment on obsolete and slow-moving items.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to external customers, less returns and trade discounts during the year.

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers recognised at a point in time under HKFRS 15:		
Novelties and decoration products	13,733	17,670
Toy products	<u>128,203</u>	<u>127,581</u>
	<u>141,936</u>	<u>145,251</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENTS REPORTING

For management purposes, the Group is currently organised into two operating segments, namely the manufacture and sale of novelties and decoration products and the manufacture and sale of toy products.

The following is an analysis of the Group's revenue and results by reportable segments:

2019

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	<u>13,733</u>	<u>128,203</u>	<u>141,936</u>
RESULT			
Segment results	<u>(3,377)</u>	<u>(23,454)</u>	(26,831)
Loss from changes in fair value of an investment property			(3,000)
Unallocated corporate expenses, net			(20,391)
Finance costs			<u>(2,197)</u>
Loss before tax			(52,419)
Income tax expense			<u>(4,838)</u>
Loss for the year			<u>(57,257)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENTS REPORTING (Cont'd)

2019 (Cont'd)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	29,357	81,972	111,329
Unallocated corporate assets			<u>111,634</u>
Consolidated total assets			<u><u>222,963</u></u>
LIABILITIES			
Segment liabilities	25,311	62,597	87,908
Unallocated corporate liabilities			<u>1,614</u>
Consolidated total liabilities			<u><u>89,522</u></u>

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	60	9,147	1,391	10,598
Depreciation of property, plant and equipment	462	5,134	1,932	7,528
Depreciation of right-of-use assets	667	231	54	952
Interest income	<u>6</u>	<u>32</u>	<u>626</u>	<u>664</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019



6. SEGMENTS REPORTING (Cont'd)

2018

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	<u>17,670</u>	<u>127,581</u>	<u>145,251</u>
RESULT			
Segment results	<u>(6,236)</u>	<u>(17,393)</u>	(23,629)
Loss from changes in fair value of an investment property			(1,000)
Unallocated corporate expenses, net			(13,844)
Finance costs			<u>(124)</u>
Loss before tax			(38,597)
Income tax credit			<u>217</u>
Loss for the year			<u>(38,380)</u>



6. SEGMENTS REPORTING (Cont'd)

2018 (Cont'd)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	14,187	62,270	76,457
Unallocated corporate assets			<u>125,363</u>
Consolidated total assets			<u>201,820</u>
LIABILITIES			
Segment liabilities	4,740	21,382	26,122
Unallocated corporate liabilities			<u>1,218</u>
Consolidated total liabilities			<u>27,340</u>

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	—	3,043	5	3,048
Depreciation of property, plant and equipment	579	5,361	1,115	7,055
Interest income	<u>7</u>	<u>20</u>	<u>165</u>	<u>192</u>

Segment result represents the result produced by each segment without allocation of central administration costs including directors' salaries, other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain financial assets, investment property, and leasehold land and building which are held for central administrative purpose. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to operating segments other than certain financial liabilities incurred for central administrative purpose. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENTS REPORTING (Cont'd)

Geographical Information

The Group's revenue from external customers by location of operations are detailed below:

	2019 HK\$'000	2018 HK\$'000
Sales revenue by geographical market:		
Hong Kong	8,929	10,061
Europe	14,914	19,899
United States of America	1,180	19,007
Asia (other than Hong Kong)	116,453	95,857
Others	460	427
	141,936	145,251

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in where the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Hong Kong	155,060	154,595	1,391	272
PRC	67,903	47,225	9,207	2,776
	222,963	201,820	10,598	3,048

Information about major customer

Included in revenue arising from sales of toy products of approximately HK\$128,203,000 (2018: HK\$127,581,000) is revenue of approximately HK\$116,875,000 (2018: HK\$119,674,000) which arose from sales to the Group's largest customer, representing approximately 82% (2018: 82%) of the total revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. OTHER INCOME, GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000
Interest income from financial assets held for cash management purposes	664	192
Rental income from investment property	611	—
Scrap sales (Note)	2,294	2,061
Gain (loss) on disposal of property, plant and equipment	531	(1,176)
(Loss) gain on deregistration of subsidiary (Note 26)	(256)	881
Net foreign exchange gains	570	833
Gain on termination of a lease	1	—
Tooling income (Note)	1,917	1,446
Laboratory testing income (Note)	437	139
Others (Note)	419	472
	<u>7,188</u>	<u>4,848</u>

Note: Those income are the revenue from contracts with customers recognised at a point in time under HKFRS 15.

8. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on:		
Bank borrowings	418	93
Bank overdrafts	93	31
Lease liabilities	874	—
Amount due to a former director of subsidiaries	812	—
	<u>2,197</u>	<u>124</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. LOSS BEFORE TAX

	2019 HK\$'000	2018 HK\$'000
Loss before tax has been arrived at after charging (crediting):		
Auditor's remuneration	1,075	1,075
Cost of inventories recognised as an expense	34,017	44,750
Depreciation of property, plant and equipment	7,528	7,055
Depreciation of right-of-use assets	952	—
Short-term operating lease rentals in respect of rented premises	2,476	4,785
Research and development expenses	—	3,600
Gross rental income from investment property	(611)	—
Less: direct operating expenses incurred for investment property that generated rental income during the year	100	—
	(511)	—
Staff costs		
— Salaries, allowances and retirement benefits scheme contributions (including Directors' emoluments)	80,092	89,615
— Compensation on removal of a factory	19,584	508

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the seven Directors in 2019 were as follows:

Emoluments	Other emoluments				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive Directors⁽ⁱ⁾					
Li Shaohua ^(vi)	577	271	—	—	848
Poon Wai Yip, Albert	—	3,600	300	18	3,918
Wong Sze Chai ^{(iv), (v)}	219	—	—	—	219
Non-executive Director and Chairman⁽ⁱⁱ⁾					
Gao Xiaorui	180	—	—	—	180
Independent Non-executive Directors⁽ⁱⁱⁱ⁾					
Lau Shu Yan	180	—	—	—	180
Xie Xiaohong	180	—	—	—	180
Lam Tak Leung	180	—	—	—	180
Total for 2019	1,516	3,871	300	18	5,705

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emoluments paid or payable to each of the eight Directors in 2018 were as follows:

Emoluments	Fees HK\$'000	Salaries and other benefits HK\$'000	Other emoluments		Total HK\$'000
			Bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive Directors⁽ⁱ⁾					
Xie YINUO ⁽ⁱⁱⁱ⁾	—	—	—	—	—
Poon Wai Yip, Albert	—	3,040	1,200	18	4,258
Wong Sze Chai ^{(iv), (v)}	48	—	—	—	48
Non-executive Director and Chairman⁽ⁱⁱ⁾					
Gao Xiaorui	180	—	—	—	180
Independent Non-executive Directors⁽ⁱⁱ⁾					
Zhang Shang ⁽ⁱⁱⁱ⁾	175	—	—	—	175
Lau Shu Yan	180	—	—	—	180
Xie Xiaohong	180	—	—	—	180
Lam Tak Leung ^(iv)	6	—	—	—	6
Total for 2018	769	3,040	1,200	18	5,027

Notes:

- (i) Salary paid to an Executive Director is generally an emolument paid or receivable in respect of that person's services in connection with the management of the affairs of the Company or its subsidiary undertakings.
- (ii) Salary paid to a Non-executive Director or Independent Non-executive Director is generally an emolument paid or receivable in respect of that person's services in connection with the management of the affairs of the Company.
- (iii) Resigned on 20 December 2018.
- (iv) Appointed on 20 December 2018.
- (v) Resigned on 21 February 2019.
- (vi) Appointed on 21 February 2019.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(b) Directors' retirement benefits and termination benefits

During the year ended 31 December 2019, there were no retirement benefits or termination benefits received by the directors (2018: HK\$Nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2019, no consideration was paid for making available the services of the directors of the Company (2018: HK\$Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

During the year ended 31 December 2019, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company in favour of directors, controlled bodies corporate by and connected entities with such directors (2018: HK\$Nil).

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

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: HK\$Nil).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(f) Waiver of emoluments

No director has waived or agreed to waive any emoluments during the year ended 31 December 2019 (2018: HK\$Nil).

(g) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, one (2018: one) was Director of the Company, namely Mr. Poon Wai Yip, Albert, whose emolument is set out in (a) above. The aggregate emoluments of the remaining four (2018: four) individuals were as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and other benefits	9,628	7,981
Bonuses	872	3,738
Retirement benefit schemes contributions	78	90
	<u>10,578</u>	<u>11,809</u>

Their emoluments were within the following bands:

	2019 Number of employees	2018 Number of employees
Nil — HK\$1,000,000	—	—
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$1,500,001 — HK\$2,000,000	—	—
HK\$2,000,001 — HK\$2,500,000	1	1
HK\$2,500,001 — HK\$3,000,000	—	—
HK\$3,000,001 — HK\$3,500,000	1	—
HK\$3,500,001 — HK\$4,000,000	1	—
HK\$4,000,001 — HK\$4,500,000	—	2
	<u>4</u>	<u>4</u>

(h) Inducement to join the Group

During the year ended 31 December 2019, no emoluments were paid by the Group to any of the five highest paid individuals and/or any directors of the Company as an inducement to join or upon joining the Group (2018: HK\$Nil) or as compensation for loss of office (2018: HK\$Nil).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. INCOME TAX EXPENSE (CREDIT)

	2019 HK\$'000	2018 HK\$'000
Current tax:		
Hong Kong Profits Tax	—	454
PRC Enterprise Income Tax	<u>68</u>	<u>30</u>
	<u>68</u>	<u>484</u>
(Over) under provision in prior years:		
Hong Kong Profits Tax	(185)	(80)
PRC Enterprise Income Tax	<u>27</u>	<u>—</u>
	<u>(158)</u>	<u>(80)</u>
Deferred tax (Note 17)		
Origination (reversal) of temporary differences	<u>4,928</u>	<u>(621)</u>
Total income tax expense (credit) recognised in profit or loss	<u><u>4,838</u></u>	<u><u>(217)</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

11. INCOME TAX EXPENSE (CREDIT) (Cont'd)

The tax charge (credit) for the year can be reconciled to the loss before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2019 HK\$'000	2018 HK\$'000
Loss before tax	<u>(52,419)</u>	<u>(38,597)</u>
Tax at Hong Kong Profits Tax rate of 16.5%	(8,649)	(6,368)
Tax effect of income not taxable for tax purposes	(459)	(1,172)
Tax effect of expenses not deductible for tax purposes	8,087	5,190
Tax effect on temporary differences not recognised	549	347
Tax effect on tax losses not recognised	6,869	2,651
Utilisation of tax losses not previously recognised	(109)	182
Over-provision in respect of prior years	(158)	(80)
Effect of different tax rates of subsidiaries operating in the PRC	<u>(1,292)</u>	<u>(967)</u>
Tax charge (credit) for the year	<u>4,838</u>	<u>(217)</u>

12. DIVIDENDS

The Board did not recommend the payment of a final dividend for the years ended 31 December 2019 and 2018.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the year attributable to owners of the Company of approximately HK\$55,038,000 (2018: HK\$36,424,000) and the weighted average number of ordinary shares of 326,923,607 (2018: 326,923,607).

Diluted loss per share for the years ended 31 December 2019 and 2018 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvement on factory premises HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1 January 2018	32,636	33,403	17,541	96,039	3,824	183,443
Additions	—	1,089	489	1,202	268	3,048
Disposals	—	(27,886)	(4,480)	(10,633)	(717)	(43,716)
Transfer from investment property (Note 15)	35,000	—	—	—	—	35,000
Exchange alignment	—	(91)	(131)	(1,886)	(55)	(2,163)
At 31 December 2018 and 1 January 2019	67,636	6,515	13,419	84,722	3,320	175,612
Additions	—	7,097	1,519	1,514	468	10,598
Written off	(976)	(5,225)	(1,831)	(1,554)	—	(9,586)
Disposals	—	(382)	(707)	(13,473)	(59)	(14,621)
Transfer to investment property (Note)	(31,660)	—	—	—	—	(31,660)
Exchange alignment	—	(200)	(28)	(528)	(41)	(797)
	35,000	7,805	12,372	70,681	3,688	129,546
DEPRECIATION AND AMORTISATION						
At 1 January 2018	5,055	33,003	11,788	71,957	2,509	124,312
Provided for the year	1,145	1,020	788	3,632	470	7,055
Eliminated upon disposals	—	(27,787)	(1,642)	(9,776)	(730)	(39,935)
Exchange alignment	—	(29)	(90)	(868)	(27)	(1,014)
At 31 December 2018 and 1 January 2019	6,200	6,207	10,844	64,945	2,222	90,418
Provided for the year	1,534	1,188	770	3,553	483	7,528
Eliminated upon written off	(976)	(5,225)	(1,831)	(1,554)	—	(9,586)
Eliminated upon disposals	—	(382)	(688)	(13,443)	(55)	(14,568)
Eliminated on transfer to investment property (Note)	(5,461)	—	—	—	—	(5,461)
Exchange alignment	—	(40)	(4)	(168)	(28)	(240)
	1,297	1,748	9,091	53,333	2,622	68,091
CARRYING AMOUNTS						
At 31 December 2019	33,703	6,057	3,281	17,348	1,066	61,455
At 31 December 2018	61,436	308	2,575	19,777	1,098	85,194

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Note:

On 31 March 2019, there was a change in classification from property for own use by the Group to earning rental from external third parties. In accordance with HKAS 16 *Property, plant and equipment* and HKAS 40 *Investment property*, the property was transferred from land and buildings held for own use to investment property at fair value of the property on the date of transfer.

The fair value of the Group's property at 31 March 2019 of HK\$42,900,000 was arrived at on the basis of a valuation on that date by BMI Appraisals Limited, an independent qualified professional valuers not connected to the Group. BMI Appraisals Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations.

At 31 March 2019, the fair value was determined based on Comparison Approach assuming sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market.

In estimating the fair value of the property, the highest and best use of the property is its current use.

The key input was the unit sale price taking into account of time, location and individual factors such as size and levels of building, which range from approximately HK\$7,901 to HK\$9,269 per square foot around March 2019. An increase in the unit sale rate would result in increase in fair value of the investment property by the same percentage and vice versa.

	HK\$000
Cost of transfer	31,660
Written back of depreciation and amortisation on transfer	<u>(5,461)</u>
	26,199
Surplus on revaluation	<u>16,701</u>
Transfer to investment property on 31 March 2019	<u><u>42,900</u></u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. INVESTMENT PROPERTY

	2019 HK\$'000	2018 HK\$'000
At fair value		
Balance at the beginning of the year	—	36,000
Transfer from (to) property, plant and equipment (Note 14)	42,900	(35,000)
Loss from changes in fair value of an investment property	<u>(3,000)</u>	<u>(1,000)</u>
Balance at the end of the year	<u><u>39,900</u></u>	<u><u>—</u></u>

The Group's property interests held for earning rentals are measured using the fair value model and are classified and accounted for as investment property.

The fair value of the Group's investment property at 31 December 2019 has been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, an independent qualified professional valuer not connected to the Group. BMI Appraisals Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations.

At 31 December 2019, the fair value was determined based on Investment Approach by taking into account the current passing rent of the property being held under the existing tenancy and the reversionary potential of the tenancy if it has been or would be let to tenants.

In estimating the fair value of the property, the highest and best use of the property is its current use.

15. INVESTMENT PROPERTY (Cont'd)

The following table gives information about how the fair values of investment property is determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurement is categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurement is observable.

There were no transfers into or out of Level 3 during the year.

Fair value measurement of the investment property

	Fair Value		Fair value hierarchy	Valuation techniques	Significant unobservable inputs and ranges	Relationship of unobservable inputs to fair value
	2019 HK\$'000	2018 HK\$'000				
Industrial property located in Hong Kong	39,900	—	Level 3	Investment approach	Rental per square foot; (saleable area) HK\$10–HK\$15 (2018: Nil), reversionary yield 2.5%–3% (2018: Nil)	The increase/decrease in the rental per square foot would result in an increase/decrease in the fair value of the property. The increase/decrease in the reversionary yield would result in a decrease/increase in the fair value of the property.

Details of the pledge of assets are set out in note 27 to the consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019



16. RIGHT-OF-USE ASSETS

	Land and building HK\$000
COST	
At 31 December 2018	—
Impact on initial application of HKFRS 16 (Note 2)	<u>16,233</u>
At 1 January 2019	16,233
Written off	<u>(461)</u>
At 31 December 2019	<u>15,772</u>
ACCUMULATED DEPRECIATION	
At 1 January 2019	—
Provided for the year	952
Eliminated upon written off	<u>(231)</u>
At 31 December 2019	<u>721</u>
CARRYING AMOUNTS	
At 31 December 2019	<u><u>15,051</u></u>

17. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2018	(461)	(7,534)	(7,995)
Charge (credit) to profit or loss for the year	87	(708)	(621)
At 31 December 2018 and 1 January 2019	(374)	(8,242)	(8,616)
Charge to profit or loss for the year	564	4,364	4,928
At 31 December 2019	190	(3,878)	(3,688)

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

With regard to the Group's investment property, as none of the Group's investment property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, the Group has not recognised any deferred taxes on changes in fair value of the investment property as the Group is not subject to any income taxes on disposal of its investment property.

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK\$'000	2018 HK\$'000
Deferred tax liabilities	—	62
Deferred tax assets	(3,688)	(8,678)
	(3,688)	(8,616)

At the end of reporting period, the Group has unused tax losses of approximately HK\$189,418,000 (2018: HK\$178,649,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of approximately HK\$23,500,000 (2018: HK\$49,955,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$165,918,000 (2018: HK\$128,694,000) due to the unpredictability of future profit streams.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
At cost		
Raw materials	6,316	4,762
Work in progress	2,179	2,530
Finished goods	7,701	4,574
	<u>16,196</u>	<u>11,866</u>

19. TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	9,754	21,677
Less: Allowance for ECL on trade receivables	(79)	(4,524)
	<u>9,675</u>	<u>17,153</u>
Other receivables		
Prepayment	1,830	1,433
Rental, utility and other deposits	1,375	1,499
Cash deposit in broker's account	7	8
Sundry debtors and others (Note)	2,528	1,379
	<u>5,740</u>	<u>4,319</u>
	<u>15,415</u>	<u>21,472</u>

Note: Sundry debtors and others mainly related to export tax rebates receivables in the PRC.

Revenue from contracts with customers, included in the trade receivables were:

	2019 HK\$'000	2018 HK\$'000
Balance at the beginning of the year	<u>17,153</u>	<u>16,040</u>
Balance at the end of the year	<u>9,675</u>	<u>17,153</u>

The Group allows an average credit period of 60 days to its trade customers.

19. TRADE AND OTHER RECEIVABLES (Cont'd)

The following is an aging analysis of the Group's trade receivables, presented based on invoice dates and net of allowance for ECL at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
0–60 days	9,637	15,883
61–90 days	—	1,162
91–120 days	38	29
Over 120 days	—	79
	<u>9,675</u>	<u>17,153</u>

The movements in the allowance for ECL on trade receivables:

	2019 HK\$'000	2018 HK\$'000
At 1 January	4,524	4,524
Allowance for ECL recognised during the year	79	—
Amounts written off during the year as uncollectible	<u>(4,524)</u>	<u>—</u>
At 31 December	<u>79</u>	<u>4,524</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

20. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.001% to 1.850% per annum (2018: 0.125% to 2.590% per annum) with an original maturity of three months or less. The fair value of these assets at 31 December 2019 approximates to the corresponding carrying amounts.

Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Bank overdrafts carried interest at prime rate to 0.5% below prime rate of relevant banks at 4.500% to 5.000% per annum as at 31 December 2019 (2018: 4.625% to 5.125% per annum).

The unutilised bank overdrafts facilities as at 31 December 2019 amounted to HK\$8,000,000 (2018: HK\$7,522,000).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables, presented based on invoice dates at the end of reporting period:

	2019 HK\$'000	2018 HK\$'000
Trade payables		
0–60 days	7,577	7,257
61–90 days	1,390	611
91–120 days	13	22
Over 120 days	518	407
	<u>9,498</u>	<u>8,297</u>
Other payables		
Accrued salary, bonus and commission	5,460	5,750
Contract liabilities (Note)	2,921	1,128
Accrued expenses and others	3,662	2,625
	<u>12,043</u>	<u>9,503</u>
	<u>21,541</u>	<u>17,800</u>

The average credit period on purchases of certain goods is 45 to 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

Note: The contract liabilities primarily relate to the deposits or payments received in advance from customer for novelties and decoration products and toys products on request.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities.

	2019 HK\$'000	2018 HK\$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
— Toys products	581	—
— Novelties and decoration products	282	—
	<u>863</u>	<u>—</u>

The increase in contract liabilities as at 31 December 2019 was mainly due to the increase in advances received from customers in relation to the budget raise of customer for novelties and decoration products and toys products.

22. LEASE LIABILITIES

Analysed for reporting purposes as:

	2019 HK\$	2018 HK\$
Current liabilities	415	—
Non-current liabilities	<u>14,915</u>	<u>—</u>
	<u><u>15,330</u></u>	<u><u>—</u></u>

The average lease terms ranged from 1 to 24 years. During the year ended 31 December 2019, the obligations under operating leases carried effective interest rates ranged from 3% to 6.08% per annum.

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2019 HK\$	1 January 2019 (Note) HK\$	31 December 2019 HK\$	1 January 2019 (Note) HK\$
Amounts payable under operating leases				
Within one year	1,256	1,620	415	741
More than one year but less than two years	1,200	1,381	380	533
More than two years but less than five years	3,600	4,614	1,272	1,560
More than five years	<u>21,200</u>	<u>21,454</u>	<u>13,263</u>	<u>13,399</u>
	27,256	29,069	15,330	16,233
Less: future total finance charges	<u>(11,926)</u>	<u>(12,836)</u>	<u>—</u>	<u>—</u>
Present value of obligation under operating leases	<u><u>15,330</u></u>	<u><u>16,233</u></u>	<u><u>15,330</u></u>	<u><u>16,233</u></u>
Less: carrying amounts due for settlement within twelve months			<u>(415)</u>	<u>(741)</u>
Amount due for settlement after twelve months			<u><u>14,915</u></u>	<u><u>15,492</u></u>

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balance at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. AMOUNT DUE TO A FORMER DIRECTOR OF SUBSIDIARIES

The amount represented advance of approximately HK\$42,000,000 and RMB4,300,000 from Mr. Poon Siu Chung (a former director of certain subsidiaries of the Company who passed away on 28 October 2019). It was conducted on normal commercial terms, bearing interest at a rate of 4% per annum, unsecured, and repayable on demand.

24. BANK BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Secured bank loan on demand or within one year (Note)		
Balance at 1 January	7,000	—
New bank borrowings raised	15,500	7,000
Repayment of bank borrowings	<u>(17,500)</u>	<u>—</u>
Balance at 31 December	<u>5,000</u>	<u>7,000</u>

Note: Secured by the Group's leasehold land and buildings and investment property bearing interest HIBOR +1.75% per annum (2018: HIBOR +1.75% to HIBOR +2.25% per annum). The effective interest rate on the secured bank loans is 4.43% per annum (2018: 2.79% to 4.07% per annum).

25. SHARE CAPITAL

	Number of shares		Share capital	
	2019 '000	2018 '000	2019 HK\$'000	2018 HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>700,000</u>	<u>70,000</u>	<u>70,000</u>
Issued and fully paid				
At beginning and end of year	<u>326,924</u>	<u>326,924</u>	<u>32,692</u>	<u>32,692</u>

26. DEREGISTRATION OF A SUBSIDIARY

During the year ended 31 December 2019, the Group deregistered a direct wholly-owned subsidiary, Vivid Art Holdings Limited, and its indirect wholly-owned subsidiaries, Prosperous Celestial Holding Limited, Universal Celestial Holding Limited, Jolly Celestial Holding Limited, Vigor Celestial Holding Limited, Prosperous Celestial (HK) Holding Limited, Universal Celestial (HK) Holding Limited, Jolly Celestial (HK) Holding Limited and Vigor Celestial (HK) Holding Limited (Collectively referred to “Vivid Art Group”).

On 19 October 2019, the Group deregistered an indirect wholly-owned subsidiary, 中山市志發玩具有限公司 (“志發”).

Net assets of the deregistered subsidiaries at its date of deregistration are as follows:

	志發 HK\$'000	Vivid Art Group HK\$'000	Total HK\$'000
Current assets	3	—	3
Current liabilities	—	—	—
Net assets disposal of	3	—	3
Release of exchange translation reserve	253	—	253
Loss on deregistration (Note 7)	256	—	256

There was no net inflow/outflow of cash and cash equivalents in respect of the deregistration of subsidiaries during the year.

27. PLEDGE OF ASSETS

As at 31 December 2019, the Group had pledged its leasehold land and buildings with carrying value of approximately HK\$33,703,000 (31 December 2018: HK\$61,436,000) and investment property of approximately HK\$39,900,000 (31 December 2018: HK\$Nil) to secure banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. OPERATING LEASES

The Group as lessee

	2019 HK\$'000	2018 HK\$'000
Lease payments made under short-term operating leases during the year		
Rented premises	<u>2,476</u>	<u>4,065</u>

At 31 December 2019, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	668	5,082
In the second to fifth year inclusive	—	4,818
Over five years	<u>—</u>	<u>22,455</u>
	<u>668</u>	<u>32,355</u>

Short-term operating lease payments represent rentals payable by the Group for certain of its office, director's quarter, staff quarter and factory premises.

Following the Group's adopt HKFRS 16, the resulting impact on the consolidated statement of profit or loss and other comprehensive income and consolidated statements of cash flow is as follows:

	2019 HK\$'000	2018 HK\$'000
Depreciation of right-of-use assets (Note 9)	952	—
Interest on lease liabilities (Note 8)	874	—
Short term operating lease rentals in respect of rented premises (Note 9)	2,476	4,785
Cash outflows in respect of lease liabilities (Note 36)	626	—
Carrying amounts of right-of-use assets (Note 16)	<u>16,233</u>	<u>—</u>

The Group as lessor

Property rental income earned during the year was HK\$611,000 (2018: HK\$Nil).

At the end of the reporting period, the Group had not contracted with tenants for future minimum lease payments.

29. CAPITAL COMMITMENTS

	THE GROUP	
	2019 HK\$'000	2018 HK\$'000
Capital commitments in respect of the acquisition of property, plant and equipment:		
Contracted but not provided for	<u>762</u>	<u>5,795</u>

30. CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

A subsidiary of the Group (the "Subsidiary") has served a writ and claimed against three former employees of the Subsidiary (the "Defendants"). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants had filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interest and costs. The Directors of the Company take the views that the amount of the Subsidiary's claims against the Defendants well exceeded the Defendants' claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

The claims have been pending since 2005.

(b) Financial guarantees issued

At the end of reporting period, the Company has issued the following guarantees:

- (i) Corporate guarantees to banks in respect of banking facilities granted to its subsidiaries

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its Subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the Subsidiaries that are parties to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

- (ii) An unlimited guarantee granted to a subsidiary in relation to banking facilities granted.

As at 31 December 2019, the Directors did not consider it probable that a claim could be made against the Company under any of the guarantees as the probability of default payment for the loan drawn down, if any, by the subsidiaries is remote.

The Company had not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was HK\$Nil.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. SHARE OPTION SCHEME

A share option scheme (the “Scheme”) was adopted in the annual general meeting of the Company held on 30 May 2012 and will expire on 29 May 2022. The primary purpose of the Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide them with incentives and to help the Company in retaining its existing employees and recruiting additional employees and to provide the aforesaid eligible participants with a direct economic interest and personal stake in attaining the long term business objectives of the Company.

Under the Scheme, the Board may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries, including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiaries, advisers, consultants, customers and suppliers and/or other persons who in the sole discretion of the Board has contributed or may contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the scheme for the consideration of HK\$1 for each lot of share options granted.

The maximum number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Scheme. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company for the time being in issue without prior approval from the Company’s shareholders in general meeting with the aforesaid proposed individual grantee and his associates being abstained from voting in such general meeting. Also, where any grant of options to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules), would result in the shares of the Company (“Shares”) issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by shareholders, and the grantee, his associates and all connected persons (as defined in the Listing Rules) of the Company must abstain from voting in favour at the relevant general meeting.

Options granted under the Scheme must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the Scheme has been terminated. Options may be exercised during the period as the Directors may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the options and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

At the date of this report, the number of shares available for issue under the Scheme of the Company were 32,692,360, representing approximately 10% of the shares of the Company in issue at that date.

There were no movements in the Company’s share options during the years ended 31 December 2019 and 2018. There were no outstanding share options of the Company as at 31 December 2019 and 31 December 2018.

32. RETIREMENT BENEFITS SCHEME

The Group participates in two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the “ORSO Schemes”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Schemes prior to the establishment of the MPF Scheme had switched to the MPF Scheme and the remaining employees selected to remain in the ORSO Schemes. All new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The ORSO Schemes are funded by monthly contributions from both employees and the Group at the rate of 5% of the employee’s basic salary.

Employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

During the reporting period and at the end of reporting period, there was no forfeited contribution, which arose upon employees leaving the ORSO Schemes and which are available to reduce the contributions payable in future years.

The total cost recognised in the consolidated statement of profit or loss and other comprehensive income of approximately HK\$457,000 (2018: HK\$504,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

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33. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had the following transactions with related parties who are not members of the Group:

	2019 HK\$'000	2018 HK\$'000
Rental expenses paid to: Mr. Poon Siu Chung (Note)	<u>120</u>	<u>120</u>
Proceeds received for disposal of property, plant and equipment: Mr. Poon Siu Chung (Note)	<u>—</u>	<u>2,200</u>
Interest expenses payable to: Mr. Poon Siu Chung (Note)	<u>812</u>	<u>—</u>

Note: Mr. Poon Siu Chung, who passed away on 28 October 2019, was a former director of certain subsidiaries of the Company.

The related party transactions constitute connected transactions as defined in Chapter 14A of the Listing Rules. The transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

- (b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year were as follows:

	2019 HK\$'000	2018 HK\$'000
Short-term benefits	<u>7,459</u>	7,161
Post-employment benefits	<u>79</u>	<u>79</u>
	<u>7,538</u>	<u>7,240</u>

The remuneration of the Directors and key management personnel is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk management

Several subsidiaries of the Company have sales and purchases denominated in foreign currency, which expose the Group to foreign currency risk. The Group currently has no foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting period are as follows:

	Assets	Liabilities	Assets	Liabilities
	2019	2019	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi ("RMB")	<u>22,376</u>	<u>20,146</u>	<u>10,074</u>	<u>11,622</u>

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the loss for the year is as follows:

	Impact of	Impact of
	RMB	RMB
	2019	2018
	HK\$'000	HK\$'000
Increase/decrease in loss for the year	<u>112</u>	<u>77</u>

Besides, at the end of the reporting period, the Group has bank balances of approximately US\$5,901,000, the sensitivity of fluctuation in USD exchange rate is considered insignificant as the Hong Kong dollars banknotes are pegged to US dollars at the rate of HK\$7.8 to US\$1.0.

Liquidity risk management

Internally generated cash flow, bank borrowings and amount due to a former director of subsidiaries are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rates and are renewable annually. Amount due to a former director of subsidiaries is subject to fixed rate and repayable on demand. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Liquidity risk management (Cont'd)

The maturity profiles of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

2019

	Weighted average interest rate	On demand or within 1 year HK\$'000	1–2 years HK\$'000	2–5 years HK\$'000	Over 5 years HK\$'000	Undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade payables	—	9,498	—	—	—	9,498	9,498
Accruals and other payables	—	9,122	—	—	—	9,122	9,122
Lease liabilities	5.49%	1,256	1,200	3,600	21,200	27,256	15,330
Amount due to a former director of subsidiaries	4.00%	47,587	—	—	—	47,587	47,587
Bank borrowings	4.43%	5,019	—	—	—	5,019	5,000
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	—	762	—	—	—	762	762
		<u>73,244</u>	<u>1,200</u>	<u>3,600</u>	<u>21,200</u>	<u>99,244</u>	<u>87,299</u>

2018

	Weighted average interest rate	On demand or within 1 year HK\$'000	1–2 years HK\$'000	2–5 years HK\$'000	Over 5 years HK\$'000	Undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade payables	—	8,297	—	—	—	8,297	8,297
Accruals and other payables	—	8,375	—	—	—	8,375	8,375
Bank borrowings	3.44%	7,083	—	—	—	7,083	7,000
Bank overdrafts	5.12%	2,478	—	—	—	2,478	2,478
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	—	5,795	—	—	—	5,795	5,795
		<u>32,028</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>32,028</u>	<u>31,945</u>

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are not significant.

Sensitivity analysis

The sensitivity analysis below, which include interest rate exposure on variable interest-bearing liabilities and deposits, have been determined based on the exposure to interest rates for all non-derivative instrument at the end of the reporting date. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables held constant, the Group's loss for the year ended 31 December 2019 would increase/ decrease by approximately HK\$358,000 (2018: HK\$165,000).

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2019 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the group's credit risk is significant reduced.

Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank borrowings, bank overdrafts, amount due to a former director of subsidiaries and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The Directors of the Company review the capital structure from time to time. As a part of this review, the Directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors of the Company, the Group balance its overall capital structure through raising new bank borrowings, bank overdrafts and advance from a former director of subsidiaries.



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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Capital risk management (Cont'd)

The management considers the gearing ratio at the year end was as follows:

	2019 HK\$'000	2018 HK\$'000
Bank borrowings	5,000	7,000
Bank overdrafts	—	2,478
Amount due to a former director of subsidiaries	<u>47,587</u>	<u>—</u>
	52,587	9,478
Equity attributable to owners of the Company	<u>119,571</u>	<u>158,311</u>
Gearing ratio	<u>44%</u>	<u>6%</u>

35. FINANCIAL INSTRUMENTS BY CATEGORY

	2019 HK\$'000	2018 HK\$'000
Financial assets		
Financial assets at amortised cost	<u>83,988</u>	<u>93,983</u>
Financial liabilities		
Financial liabilities at amortised cost	<u>86,537</u>	<u>26,150</u>

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings HK\$'000	Amount due to a former director of subsidiaries HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
At 1 January 2018	—	—	—	—
Interest paid	(93)	—	—	(93)
New borrowings raised	7,000	—	—	7,000
	6,907	—	—	6,907
Interest expenses	93	—	—	93
	93	—	—	93
At 31 December 2018	7,000	—	—	7,000
Impact on initial application of HKFRS 16 (Note 2)	—	—	16,233	16,233
At 1 January 2019	7,000	—	16,233	23,233
Interest paid	(418)	—	—	(418)
New bank borrowings raised	15,500	—	—	15,500
Advance from former director of subsidiaries	—	46,886	—	46,886
Repayment of bank borrowings	(17,500)	—	—	(17,500)
Lease payments for right-of-use assets	—	—	(1,500)	(1,500)
	(2,418)	46,886	(1,500)	42,968
Interest expenses	418	812	874	2,104
Eliminated upon termination of a lease	—	—	(231)	(231)
Exchange alignment	—	(111)	(46)	(157)
	418	701	597	1,716
At 31 December 2019	5,000	47,587	15,330	67,917

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/ operation	Proportion of nominal value of issued/paid up capital held by the Company		Particulars of issued and paid up capital	Principal activities
		Directly	Indirectly		
Asia Rich (Far East) Limited	Hong Kong	—	79.6%	2 ordinary shares	Inactive
Benefit International Packing Materials Limited	Hong Kong	—	100%	10,000 ordinary shares	Trading of novelties and festival decorations
Benefit Packing Materials Limited	Hong Kong	—	75%	10,000 ordinary shares	Inactive
Beyond Growth International Limited	Hong Kong	—	79.6%	100,000 ordinary shares	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	—	79.6%	2 ordinary shares	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands ("BVI")/ Hong Kong	—	88%	87,618 ordinary shares of US\$1 each	Investment holding
Freshwater Trading Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	—	100%	2 ordinary shares	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	—	100%	10,000 ordinary shares	Securities investments and trading of paper bags
iTech Limited	Hong Kong	—	100%	2 ordinary shares	Investment holding
Leader Packaging Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive
Link Faith Company Limited	Hong Kong	—	100%	100,000 ordinary shares	Securities investments
Mars Technology Limited	BVI/Hong Kong	—	79.6%	10,000 ordinary shares of US\$1 each	Investment holding
New Genius Technology Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Onward Packing Manufacturer Limited	Hong Kong	—	100%	320,000 ordinary shares	Manufacture of novelties, festival decorations products
Perfect Skill Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Perfectech Colour Centre Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech Enterprises (B.V.I.) Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Perfectech International (B.V.I.) Limited	BVI/Hong Kong	100%	—	50 ordinary shares of US\$1 each	Investment holding
Perfectech International Toys Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech International Limited	Hong Kong	—	100%	200 ordinary shares 80,000 non-voting deferred shares	Investment holding

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/operation	Proportion of nominal value of issued/paid up capital held by the Company		Particulars of issued and paid up capital	Principal activities
		Directly	Indirectly		
Perfectech International Manufacturing Limited	BVI/Hong Kong	—	100%	2,457,000 ordinary shares of US\$1 each	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	—	100%	450,000 ordinary shares	Inactive
Perfectech International Trading Limited	Hong Kong	—	100%	2 ordinary shares	Trading of novelties and festival decorations
Perfectech Paper Products Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Investment holding
Perfectech Plastic Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech Printing Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Investment holding
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	—	100%	10,000 ordinary shares	Investment holding
Shouji Mould Engineering Company Limited	Hong Kong	—	88%	2 ordinary shares	Distribution of mould
Shouji Tooling Factory Limited	Hong Kong	—	88%	1,000 ordinary shares	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Sunflower Garland Manufactory Limited	Hong Kong	—	100%	2 ordinary shares 160,000 non-voting deferred shares	Securities and properties investment
Yu-Me (H.K.) Limited	Hong Kong	—	100%	2 ordinary shares	Provision of management services
東青林模具塑膠(深圳)有限公司 (Note)	The PRC	—	88%	HK\$45,004,200	Manufacture and sales of moulds
珠海市多發塑膠製品有限公司 (Note)	The PRC	—	100%	HK\$500,000	Manufacture and trading of novelties and festival decorations products
江門市安發塑膠製品有限公司 (Note)	The PRC	—	100%	HK\$600,000	Inactive
中山市威發塑膠製品有限公司 (Note)	The PRC	—	100%	RMB6,000,000	Manufacture of novelties and festival decorations products
中山市利發玩具有限公司 (Note)	The PRC	—	79.6%	RMB8,059,405	Manufacture and sales of toys

Note: These subsidiaries are wholly foreign-owned enterprises established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Details of non-wholly owned subsidiaries that have material non-controlling interests

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

Name of subsidiary	Place of incorporation/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019	2018	2019	2018
Fareastern Trade Limited	BVI/Hong Kong	88%	88%	(2,095)	67	4,963	7,152
Mars Technology Limited	BVI/Hong Kong	79.6%	79.6%	(160)	(2,021)	8,182	8,293

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

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Fareastern Trade Limited and its wholly owned subsidiaries (Fareastern Group)

	2019 HK\$'000	2018 HK\$'000
Current assets	<u>269,758</u>	<u>242,200</u>
Non-current assets	<u>19,591</u>	<u>14,220</u>
Current liabilities	<u>(247,977)</u>	<u>(196,770)</u>
Non-current liabilities	<u>—</u>	<u>(38)</u>
Equity attributable to owners of the Company	<u>36,408</u>	<u>52,460</u>
Non-controlling interests	<u>4,964</u>	<u>7,152</u>
Revenue	<u>72,004</u>	<u>75,060</u>
(Loss) profit for the year attributable to:		
— owners of the Company	(15,374)	490
— the non-controlling interests	<u>(2,096)</u>	<u>67</u>
	<u>(17,470)</u>	<u>557</u>
Other comprehensive expense for the year attributable to:		
— owners of the Company	(678)	(1,303)
— the non-controlling interests	<u>(92)</u>	<u>(178)</u>
	<u>(770)</u>	<u>(1,481)</u>
Total comprehensive expense for the year attributable to:		
— owners of the Company	(16,052)	(813)
— the non-controlling interests	<u>(2,188)</u>	<u>(111)</u>
	<u>(18,240)</u>	<u>(924)</u>
Dividend paid to the non-controlling interests	<u>—</u>	<u>536</u>
Net cash outflow from operating activities	(3,363)	(2,231)
Net cash outflow from investing activities	(8,153)	(1,002)
Net cash inflow (outflow) from financing activities	<u>28,899</u>	<u>(539)</u>
Net cash inflow (outflow)	<u>17,383</u>	<u>(3,772)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Mars Technology Limited and its wholly owned subsidiaries (Mars Group)

	2019 HK\$'000	2018 HK\$'000
Current assets	<u>184,051</u>	<u>167,026</u>
Non-current assets	<u>6,526</u>	<u>9,964</u>
Current liabilities	<u>(150,458)</u>	<u>(136,144)</u>
Non-current liabilities	<u>—</u>	<u>—</u>
Equity attributable to owners of the Company	<u>31,937</u>	<u>32,553</u>
Non-controlling interests	<u>8,182</u>	<u>8,293</u>
Revenue	<u>56,199</u>	<u>52,522</u>
Loss for the year attributable to:		
— owners of the Company	(663)	(7,699)
— the non-controlling interests	<u>(123)</u>	<u>(2,021)</u>
	<u>(786)</u>	<u>(9,720)</u>
Other comprehensive income (expense) for the year attributable to:		
— owners of the Company	47	(326)
— the non-controlling interests	<u>12</u>	<u>(84)</u>
	<u>59</u>	<u>(410)</u>
Total comprehensive expense for the year attributable to:		
— owners of the Company	(616)	(8,026)
— the non-controlling interests	<u>(111)</u>	<u>(2,105)</u>
	<u>(727)</u>	<u>(10,131)</u>
Dividend paid to the non-controlling interests	<u>—</u>	<u>—</u>
Net cash outflow from operating activities	(6,435)	(10,561)
Net cash outflow from investing activities	(404)	(1,700)
Net cash inflow from financing activities	<u>7,210</u>	<u>6,934</u>
Net cash inflow (outflow)	<u>371</u>	<u>(5,327)</u>

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS		
Unlisted investments in subsidiaries	32,060	32,451
Property, plant and equipment	<u>61</u>	<u>19</u>
	<u>32,121</u>	<u>32,470</u>
CURRENT ASSETS		
Prepayment and deposit	615	627
Amounts due from subsidiaries (Note a)	121,721	137,779
Bank balances and cash	<u>34,605</u>	<u>57,157</u>
	<u>156,941</u>	<u>195,563</u>
CURRENT LIABILITIES		
Accrued expenses	1,208	1,049
Amounts due to subsidiaries (Note a)	<u>68,283</u>	<u>68,673</u>
	<u>69,491</u>	<u>69,722</u>
NET CURRENT ASSETS	<u>87,450</u>	<u>125,841</u>
NET ASSETS	<u>119,571</u>	<u>158,311</u>
CAPITAL AND RESERVES		
Share capital (Note 25)	32,692	32,692
Reserves	<u>86,879</u>	<u>125,619</u>
TOTAL EQUITY	<u>119,571</u>	<u>158,311</u>

Note a: The amounts due from/to subsidiaries are unsecured, interest free and had no fixed term of repayment.

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 29 April 2020 and are signed on its behalf by:

Mr. Gao Xiaorui
Director

Mr. Li Shaohua
Director



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Cont'd)

Movement in the Company's reserves

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (Accumulated loss) HK\$'000	Total HK\$'000
At 1 January 2018	32,692	118,895	10,337	8,267	170,191
Loss and total comprehensive expense for the year	—	—	—	(11,880)	(11,880)
At 31 December 2018 and 1 January 2019	32,692	118,895	10,337	(3,613)	158,311
Loss and total comprehensive expense for the year	—	—	—	(38,740)	(38,740)
At 31 December 2019	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>(42,353)</u>	<u>119,571</u>

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				2019 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	
Revenue	198,088	237,069	186,789	145,251	141,936
(Loss) profit before tax	(10,708)	36,868	(5,686)	(38,597)	(52,419)
Income tax (expenses) credit	(2,668)	(6,206)	(4,910)	217	(4,838)
(Loss) profit for the year	<u>(13,376)</u>	<u>30,662</u>	<u>(10,596)</u>	<u>(38,380)</u>	<u>(57,257)</u>
Attributable to:					
Owners of the Company	(16,090)	23,272	(11,408)	(36,424)	(55,038)
Non-controlling interests	<u>2,714</u>	<u>7,390</u>	<u>812</u>	<u>(1,956)</u>	<u>(2,219)</u>
(Loss) profit for the year	<u>(13,376)</u>	<u>30,662</u>	<u>(10,596)</u>	<u>(38,380)</u>	<u>(57,257)</u>

ASSETS AND LIABILITIES

	As at 31 December				2019 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	
Total assets	253,041	290,229	247,326	201,820	222,963
Total liabilities	<u>(54,346)</u>	<u>(62,174)</u>	<u>(31,825)</u>	<u>(27,340)</u>	<u>(89,522)</u>
Total equity	<u>198,695</u>	<u>228,055</u>	<u>215,501</u>	<u>174,480</u>	<u>133,441</u>
Non-controlling interests	15,708	21,412	18,922	16,169	13,870
Equity attributable to owners of the Company	<u>182,987</u>	<u>206,643</u>	<u>196,579</u>	<u>158,311</u>	<u>119,571</u>
Total equity	<u>198,695</u>	<u>228,055</u>	<u>215,501</u>	<u>174,480</u>	<u>133,441</u>



PARTICULARS OF MAJOR PROPERTIES

INVESTMENT PROPERTY

Category	Location	Type	Category of lease	Group's interest
	Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Medium-term	100%

LEASEHOLD LAND AND BUILDINGS

Category	Location	Type	Category of lease	Group's interest
	Units 1 & 2, 15/F, Sun Hing Industrial Building, 46 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Medium-term	100%

