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恒發光學  
控股有限公司

KELFRED  
HOLDINGS  
LIMITED

INCORPORATED  
IN THE  
CAYMAN ISLANDS  
WITH LIMITED  
LIABILITY  
STOCK CODE:  
1134

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## Executive Directors

Mr. Kwok Kwan Fai (*Chairman*)  
Mr. Kwok Kwan Yu (*Chief executive officer*)

## Non-Executive Directors

Mr. Kwok Mau Kwan  
Ms. Chan Yin Wah

## Independent Non-Executive Directors

Mr. Lee Wai Ming  
Mr. Chu Kin Ming  
Mr. Chan Hon Wah

## Company Secretary

Ms. Tsang Wing Kiu *HKICPA, ICAEW*

## Authorised Representatives

Mr. Kwok Kwan Fai  
Mr. Kwok Kwan Yu

## Audit Committee

Mr. Chu Kin Ming (*Chairman*)  
Mr. Lee Wai Ming  
Mr. Chan Hon Wah

## Remuneration Committee

Mr. Chan Hon Wah (*Chairman*)  
Mr. Chu Kin Ming  
Mr. Lee Wai Ming  
Mr. Kwok Kwan Fai

## Nomination Committee

Mr. Kwok Kwan Fai (*Chairman*)  
Mr. Chan Hon Wah  
Mr. Chu Kin Ming  
Mr. Lee Wai Ming

## Risk Management Committee

Mr. Lee Wai Ming (*Chairman*)  
Mr. Chu Kin Ming  
Mr. Chan Hon Wah

## Registered Office

PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

## Auditor

RSM Hong Kong  
29th Floor  
Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

## Headquarters and Principal Place of Business in Hong Kong

Workshops 1605-1606, 16/F., Block B  
New Trade Plaza  
6 On Ping Street  
Sha Tin, New Territories  
Hong Kong

## Cayman Islands Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited  
PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited  
Level 54  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Compliance Adviser

Cinda International Capital Limited  
45/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

## Legal Advisers

### As to Hong Kong law:

P.C. Woo & Co.  
Solicitors, Hong Kong  
12th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

## Principal Banks

DBS Bank (Hong Kong) Limited  
Standard Chartered Bank (Hong Kong) Limited  
Bank of Communications Co., Ltd.

## Company Website

[www.kelfred.com.hk](http://www.kelfred.com.hk)

## Stock Code

1134

To all shareholders,

On behalf of the board of directors (the “**Board**”) of Kelfred Holdings Limited (the “**Company**”), I am pleased to present the annual results of the Company and its subsidiaries (the “**Group**”) for year ended 31 December 2019, representing the first annual report since its listing.

2019 was a remarkable year in which the Group reached an important milestone with the Company's shares being successfully listed on Main Board of The Stock Exchange of Hong Kong Limited on 16 July 2019. The Group's reputation was enhanced, our financial position was strengthened, and we could implement our business plans effectively. I would like to take this opportunity to express my sincere gratitude to all professional parties and the Group's management for their joint efforts contributing to the Company's successful listing.

Notwithstanding the challenging environment for the global markets in 2019 with incidents such as, the trade war between the People's Republic of China (the “**PRC**”) and United States, an exit by the United Kingdom from the European Union, coupled with protracted civil social unrest in Hong Kong, our Group still managed to maintain similar level of revenue as compared to last year, with a mere decrease of approximately 1.8% to HK\$413.4 million for the year ended 31 December 2019.

However, our operations were affected by the outbreak of the novel coronavirus pneumonia epidemic (the “**COVID-19**”) in the PRC since January 2020. Our production bases in the PRC were temporarily closed in first two weeks of February 2020, and most of our suppliers have suspended their supply of materials in February 2020. As the epidemic situation in the PRC is gradually controlled, our production bases in the PRC have resumed most of our operations as at the date of this report. Safeguarding our clients' and employees' safety is our utmost priority, our Group, with a highly responsible attitude, has established and improved prevention and control measures to ensure the resumption of our operations in a safe and orderly manner, and made every effort to reduce the impact of the COVID-19 on our operations.

Recently, some countries have adopted control measures and restriction on social and commercial activities to reduce the spread of COVID-19, which may have adverse impact on the global economy. We expect that our operating results for the year ending 31 December 2020 will be considerably affected, though we are not yet able to reasonably quantify the potential magnitude of such impact on our future financial performance at the time of this annual report. In order to mitigate the potential negative effect on our financial performance as a result of the outbreak of COVID-19, we will strengthen cost control measures and continue to strive for sales orders from our customers by providing quality eyewear products.

## CHAIRMAN'S STATEMENT

Looking forward 2020, our Group has been exploring new business opportunities and strives to bring higher returns to shareholders, one of them being the camellia oil and skin care products industry. In late 2019, Qinxiang Camellia Technology Hong Kong Co., Limited, a wholly-owned subsidiary of our Group, has agreed to act as the sales agent of Huaihua Qinxiang Oil Industry Company Limited\* (懷化秦湘油業有限公司) (“**Huaihua Qinxiang**”), headquartered in Huaihua City, Hunan Province, the PRC, for selling camellia oil and skin care products produced by Huaihua Qinxiang in the PRC, including Hong Kong and Macau (the “**New Business**”). However, the commencement of the New Business was delayed due to the outbreak of COVID-19 in the PRC. With the gradual containment of the COVID-19 in the PRC recently, our Group resumed its discussion with Huaihua Qinxiang on the mode of cooperation and will set up a project team to develop the New Business. As a considerable portion of our Group’s eyewear products are sold to the European market, with the uncertainty of the global economy, particularly in Europe, due to the outbreak of the COVID-19, our Group believes that the development of the New Business represents a new and valuable opportunity for our Group to achieve diversification in its principal business and income streams and mitigate the impact of any potential decrease in revenue of our Group due to decreased sales to its customers in Europe (if any).

Notwithstanding the Group’s intention to develop the New Business, the existing principal business of the Group in the manufacturing and sales in eyewear products, will continue to remain as the core business of the Group. The renovation of the showroom and design laboratory located in Hong Kong, as part of our business plan, is expected to complete in or around May 2020, and together with the newly formed in-house design team commencing its operation there, it will enhance the overall customer relationship and facilitate our exchange of information and ideas on the changing taste and preference of various markets with our customers.

On behalf of the Board, I would like to express my greatest appreciation to all our shareholders, customers, suppliers and business partners for their invaluable support, as well as to our management team and staff for their dedication and commitment throughout this challenging year.

*Chairman*

**Kwok Kwan Fai**

Hong Kong, 23 March 2020

## FOUR-YEAR FINANCIAL SUMMARY

A summary of the results, and of the assets, liabilities and non-controlling interest of the Group for the last four financial years, as extracted from the published audited financial statements or published prospectus of the Company is set out below.

### RESULTS

#### Year ended 31 December

	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	317,996	362,775	421,094	<b>413,395</b>
Cost of sales	(230,806)	(268,870)	(324,412)	<b>(317,106)</b>
Gross profit	87,190	93,905	96,682	<b>96,289</b>
Other income	1,733	2,666	2,876	<b>3,091</b>
Other gains and losses	5,028	(972)	3,963	<b>3,658</b>
Selling and distribution expenses	(12,149)	(15,637)	(16,601)	<b>(21,300)</b>
Administrative and other operating expenses	(27,085)	(38,114)	(46,532)	<b>(66,095)</b>
Profit from operations	54,717	41,848	40,388	<b>15,643</b>
Finance costs, net	(565)	(940)	(2,022)	<b>(1,903)</b>
Profit before tax	54,152	40,908	38,366	<b>13,740</b>
Income tax expenses	(9,363)	(8,021)	(7,341)	<b>(4,637)</b>
Profit for the year	44,789	32,887	31,025	<b>9,103</b>
Attributable to:				
<i>Owners of the Company</i>	44,195	32,331	30,420	<b>8,377</b>
<i>Non-controlling interests</i>	594	556	605	<b>726</b>
	44,789	32,887	31,025	<b>9,103</b>

## FOUR-YEAR FINANCIAL SUMMARY

### ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <b><i>HK\$'000</i></b>
Total assets	208,408	258,984	215,282	<b>310,290</b>
Total liabilities	(106,619)	(110,639)	(117,918)	<b>(101,981)</b>
Non-controlling interests	(714)	(970)	(575)	<b>(1,301)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	101,075	147,375	96,789	<b>207,008</b>

The shares of the Company were initially listed on the Main Board of The Stock Exchange of Hong Kong Limited on 16 July 2019. No financial statements of the Group for the year ended 31 December 2015 have been published.

The board of Directors (the “**Board**”) of Kelfred Holdings Limited (the “**Company**”) is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2019, together with the comparative figures for the corresponding period in 2018 (the “**Years Under Review**”). The information should be read in conjunction with the prospectus of the Company dated 29 June 2019 (the “**Prospectus**”).

### BUSINESS REVIEW AND OUTLOOK

Our Group is an established eyewear manufacturer in the PRC and Hong Kong that produce and sells a wide range of spectacle frames and sunglasses mainly through original design manufacturing (“**ODM**”) and original equipment manufacturing (“**OEM**”) business models. We offer integrated and customised services which includes product design and development, raw materials procurement, production, quality control, packaging and delivery. In addition to the traditional OEM and ODM business models, we also commenced offering our original brand manufacturing (“**OBM**”) products under the brand “Miga” in 2016 to diversify our revenue streams, enlarge our customer base and solidify our competitive position.

Leveraging on over 30 years of experience in the eyewear industry, we pride ourselves on our broad network of renowned and trusted customers worldwide (who are primarily international eyewear retailers, trading companies and licensed brand owners). We have produced quality eyewear products under our customers’ designated brand names and sold the same to over 35 countries in the past few years.

We established our first major production base in Shenzhen, the PRC in 2013 and set up our second and self-owned production base in Jiangxi, the PRC in 2016, which has made us capable of manufacturing eyewear products of various dimensions and specifications as required by our customers.

2019 is also an exceptional year for our Group as it has achieved a new breakthrough. On 16 July 2019 (the “**Listing Date**”), the shares of the Company (the “**Shares**”) were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), making its debut in capital market (the “**Listing**”). On the same day, the Company also issued a total of 125,000,000 Shares by way of share offer at a price of HK\$1.00 each upon Listing (the “**Share Offer**”).

Our competitive strengths include (i) a stable and established customer base that span across multiple countries, (ii) a strong eyewear product design and development capabilities, (iii) a strong commitment on craftsmanship and quality of our eyewear products, and (iv) a competent management team with experience and knowledge in the eyewear industry.

Our Group plans to continue to capitalise on opportunities which can leverage our competitive strengths and implement our business strategies. We intend to strengthen our market position and increase our market share by pursuing the following strategies: (i) increasing the level of automation in our production process and further enhancing our production efficiency and capacity; (ii) expanding our customer base in the United States and Asia market and promotion of our brand; (iii) strengthening our design and development capability; and (iv) continue enhancing our quality control capability.



## MANAGEMENT DISCUSSION AND ANALYSIS

2019 was a year of volatility in the global market environment with the incidents of Sino-US trade negotiation and the withdrawal of the United Kingdom from the European Union. Since the end of 2019, the outbreak of COVID-19 within the PRC and the epidemic of COVID-19 is still subsisting. This has caused temporary production halt in the Group's production bases and also our suppliers in the PRC. Thus, our production capacity was significantly reduced in February 2020, this brings challenges to the Group's business and supply chain. Management has adopted various measures to safeguard the health of employees and after fulfilling all the related regulations implemented by the local government, currently, all our production bases in the PRC have already resumed most of the production in order to satisfy the demand for goods from our customers. However, since late February 2020, the COVID-19 has a clear tendency to spread outside the PRC; on 11 March 2020, the World Health Organisation announced that COVID-19 can be characterized as a pandemic. The outbreak and large-scale spread of the COVID-19 has had significant impacts on global economy and various industries. It is still difficult to assess the impact of the COVID-19 on the PRC and the global economy. In addition to the impact of the COVID-19 on consumer sentiment, the upstream and downstream of the eyewear industry and retail operations are also affected, and traditional marketing activities such as exhibitions and promotion fairs are difficult to be carried out in the short term, along with the declining consumer spending.

Such factors may result in a substantial drop of sales volume in the first quarter of 2020. There is still great uncertainty of the spread of the COVID-19, as a result the Group cannot predict the degree of impact on eyewear markets in the future and business development prospects in 2020 at this stage.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operation, financial conditions, operational results or growth prospects are affected by a number of risks and uncertainties as outlined below. These factors are not exhaustive and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

#### Financial risk

Financial risk factors include foreign currency risk, credit risk, liquidity risk and interest rate risk. Details of the aforesaid financial risk factors and the respective risk management measures are elaborated in note 6 to the consolidated financial statements "Financial risk management" of this annual report.

#### Operational risk

Our stable relationship with our major customers enables our business to achieve stable revenue and profitability level. If our major customers significantly decreases its purchase quantity from our Group and we cannot identify new customers, our business and financial position may be adversely affected. Also we operate our manufacturing process at our two production bases in Shenzhen and Jiangxi, the PRC, respectively. Any unexpected disruption to our production bases due to power or water supply failure, machinery breakdown may cause delay or temporary suspension of our production and may make us unable to deliver our products to customers on time, leading to potential loss of customer confidence and reputation.

## Market risk

As we rely on marketing and sales of our products overseas, we are exposed to market risks including (i) global economic downturn in overseas markets which affect general consumer confidence; (ii) exchange rate fluctuation in foreign currencies; (iii) trade barriers; (iv) increased costs associated with understanding the overseas market trend and maintaining overseas marketing and sales activities; and (v) exposure to local economic, political, social and labour conditions in the overseas markets.

For other risks and uncertainties that the Group faces, please refer to the section headed “Risk Factors” in the Prospectus.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, our revenue decreased to approximately HK\$413.4 million by approximately HK\$7.7 million or 1.8% as compared to approximately HK\$421.1 million for the year ended 31 December 2018. For the Year Under Review, the decrease was mainly attributable to the decrease in the volume of spectacle frame and sunglasses, resulted from the delay of delivery schedule which is affected by the social unrest in the second half of 2019.

### Cost of sales

Our cost of sales decreased by approximately HK\$7.3 million or 2.3%, from approximately HK\$324.4 million for the year ended 31 December 2018 to approximately HK\$317.1 million for the year ended 31 December 2019. Such decrease was in line with the decrease in revenue by 1.8% for the Years Under Review.

### Gross profit and gross profit margin

Our gross profit decreased to approximately HK\$96.3 million for the year ended 31 December 2019, by approximately HK\$0.4 million, or 0.4%, from approximately HK\$96.7 million for the year ended 31 December 2018. The decrease was in line with decrease in the revenue but offset partially by improving selling price on sunglasses.

Our overall gross profit margin has slightly increased from approximately 23.0% for the year ended 31 December 2018 to 23.3% for the year ended 31 December 2019, mainly due to moderate growth of average selling price of sunglasses.

### Other income

Our other income increased slightly by approximately HK\$0.2 million from approximately HK\$2.9 million for the year ended 31 December 2018 to approximately HK\$3.1 million for the year ended 31 December 2019. Such increase was mainly attributable to the increase in income from sales of scraps and rework services of approximately HK\$0.8 million which was dependent on scraps volume being sold and scope of rework; but partially offset by decrease in product services fee income of approximately HK\$0.5 million for the year, whereby such services was performed on an on-demand basis and charged by the number of frames handled.

## Other gains and losses

Our other net gains decreased by approximately HK\$0.3 million, from approximately HK\$4.0 million for the year ended 31 December 2018 to approximately HK\$3.7 million for the year ended 31 December 2019, mainly due to the decrease in net exchange gain of approximately HK\$1.0 million resulting from the United States Dollars (“USD”) appreciated against Reminbi (“RMB”) continuously during the Year Under Review, but partially offset by a decrease in net losses on disposal of property, plant and equipment by approximately HK\$0.7 million.

## Selling and distribution expenses

Our selling and distribution expenses increased from approximately HK\$16.6 million for the year ended 31 December 2018 to approximately HK\$21.3 million for the year ended 31 December 2019, by approximately HK\$4.7 million or 28.3%. Such increases was primarily attributable to the increase in sampling expenses resulted from expanding our product design capability and creating more prototypes and samples.

## Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately HK\$19.6 million from approximately HK\$46.5 million for the year ended 31 December 2018 to approximately HK\$66.1 million for the year ended 31 December 2019, this was mainly due to:

- (i) our Group incurred the non-recurring listing expenses of approximately HK\$13.2 million for the year ended 31 December 2019, while that of the year ended 31 December 2018 was approximately HK\$7.1 million; and
- (ii) our staff costs recorded an increase of approximately HK\$12.8 million mainly due to increase in the director’s remuneration and number of senior managerial staff in order to cope with our corporate development after Listing.

## Finance costs, net

Our net of finance costs slightly decreased by approximately HK\$0.1 million or 5.0%, to approximately HK\$1.9 million for the year ended 31 December 2019 as compared to approximately HK\$2.0 million for the year ended 31 December 2018. The decrease was mainly due to decrease in bank loan interests by repayment of bank loans, but partially offset by an increase in interests incurred for factoring of trade receivables and newly adopted interest expense on the lease liabilities.

## Income tax expenses

Our income tax expenses decreased from approximately HK\$7.3 million for the year ended 31 December 2018 to approximately HK\$4.6 million for the year ended 31 December 2019, in line with the decrease in the profit that not taking into account the non-deductible listing expenses.

## Profit for the year

As a result of the foregoing, our profit for the year decreased by approximately HK\$21.9 million or 70.6% from approximately HK\$31.0 million for the year ended 31 December 2018 to approximately HK\$9.1 million for the year ended 31 December 2019, mainly due to (i) a decrease in revenue due to the delay of delivery schedule which was affected by the social unrest in the second half of 2019; (ii) an increase in the non-recurring listing expenses; and (iii) an increase in the selling and distribution expenses due to an increase in sampling expenses.

## FINANCIAL POSITION

As at 31 December 2019, our Group's total assets amounted to approximately HK\$310.3 million (2018: HK\$215.3 million) with net assets amounting to approximately HK\$208.3 million (2018: HK\$97.4 million). As at 31 December 2019, gearing ratio (total debts divided by the total equity) of our Group was 10.3%, a decrease of 36.0 percentage points as compared to that of 46.3% as at the end of 2018. Net debt to equity ratio (net debt, being our total debts net of bank and cash balances and pledged bank deposits, by total equity) of our Group was not applicable as at 31 December 2019 due to net cash, while was 25.1% as at 31 December 2018. As at 31 December 2019, current ratio of our Group was 2.7 times, an increase of 80.0 percentage points as compared to that of 1.5 times as at the end of 2018. As at 31 December 2019, quick ratio of our Group was 2.0 times, an increase of 100.0 percentage points as compared to that of 1.0 as at the end of 2018.

During the year ended 31 December 2019, the total assets, net assets and all of the above financial ratio have significantly increased or improved, mainly due to the repayment of bank borrowings and increase in bank and cash balances after receiving the net proceeds of approximately HK\$80 million from the Share Offer.

## LIQUIDITY AND FINANCIAL RESOURCES

Our Group adopts a balanced approach to cash and financial management to ensure proper risk control, the lowering of costs of funds and seeking to maintain an optimal level of liquidity that can meet our working capital needs while sustaining the business at a healthy level whilst also implementing our various growth strategies. Our Group finances our operations and growth primarily through cash generated from operations, bank loans and finance lease arrangement, as well as the net proceeds from the Share Offer.

As at 31 December 2019, our Group had pledged bank deposits and bank and cash balances of totalling approximately HK\$88.7 million, an increase of approximately HK\$68.1 million as compared to approximately HK\$20.6 million as at 31 December 2018, mainly attributable to the net proceeds from the Share Offer.

## TREASURY POLICIES

The primary objective of our Group's capital management is to safeguard its ability to continue as a going concern so that our Group can constantly provide returns for shareholders of our Company (the "Shareholders") and benefits for other stakeholders by securing access to financing at reasonable costs. Our Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

## INDEBTEDNESS

As at 31 December 2019, the Group's indebtedness mainly comprised bank borrowings and lease liabilities (2018: finance lease payables) of approximately HK\$15.8 million and HK\$5.7 million, respectively. Our bank borrowings are denominated in Hong Kong Dollars ("HKD"), while our lease liabilities (2018: finance lease payables) are denominated in HKD and RMB. All bank borrowings are arranged at floating rates, thus exposing our Group to cash flow interest rate risk. Interest rates for all leases are fixed on the contract dates and thus expose our Group to fair value interest rate risk.

## MANAGEMENT DISCUSSION AND ANALYSIS

The maturity of bank borrowings and lease liabilities (2018: finance lease payables) as at 31 December 2019 is as follows:

	<b>Bank borrowings</b> <sup>(Note)</sup> <i>HK\$'000</i>	<b>Lease liabilities</b> <i>HK\$'000</i>
Within one year	15,675	1,958
More than one year, but not exceeding two years	147	3,711
	<b>15,822</b>	<b>5,669</b>

Note: Bank borrowings contain a repayable on demand clause, but is not reflected in the above maturity analysis.

Our bank borrowings are secured by corporate guarantee executed by the Company and the Group's bank fixed deposit of HK\$5,000,000.

### FOREIGN CURRENCY RISKS

Our Group has a certain exposure to foreign currency risk as a number of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of respective Group entities such as HKD, USD and RMB. Our Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Our Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

### PLEDGE OF ASSETS

As at 31 December 2019, the carrying amount of motor vehicles held as right-of-use assets by the Group under lease arrangements amounted to approximately HK\$0.5 million (2018: HK\$1.5 million). As at 31 December 2019, the carrying amounts of bank deposits pledged as securities for the Group's bank facilities amounted to approximately HK\$5.0 million (2018: HK\$2.8 million).

### CAPITAL COMMITMENT

As at 31 December 2019, our Group had capital commitments of approximately HK\$0.6 million relating to property, plant and equipment, which are contracted but not provided for.

### CONTINGENT LIABILITIES

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

### EMPLOYEE AND REMUNERATION POLICY

We value our employees and recognise the importance of a good relationship with our employees. We recruit our employees based on their work experience, education background and qualifications. To maintain and ensure the quality of our employees, we provide our personnel with formal and on-the-job training to enhance their technical skills as well as knowledge of the industry quality standards and work place safety standards. As at 31 December 2019, our Group had a total of 1,026 employees of which 1,009 were in the PRC and 17 were in Hong Kong. The remuneration to our employees includes salaries and allowances. Employees are remunerated according to their qualifications, experiences, job nature, performance and with reference to market conditions.

Our Group's total employee benefit expenses (including directors' emoluments) for the years ended 31 December 2019 and 2018 were approximately HK\$111.0 million and HK\$96.1 million, respectively.

### SIGNIFICANT INVESTMENTS HELD

Our Group had not held any significant investments during the year ended 31 December 2019.

### MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

The Company was incorporated in the Cayman Islands on 20 April 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Group completed the group reorganisation on 20 June 2019 (the "**Reorganisation**") in preparation for the Listing pursuant to which the Company became the holding company of the Group. For further information in relation to the Reorganisation, please refer to the section headed "History, Reorganisation and Group Structure – Reorganisation" in the Prospectus.

Subsequent to the completion of the Reorganisation and up to 31 December 2019, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by our Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus and in this report, the Group did not have other plan for material investments or acquisition of material capital assets as at 31 December 2019.

## USE OF PROCEEDS FROM THE SHARE OFFER

With the Shares listed on the Stock Exchange on 16 July 2019, the net proceeds from the Share Offer, after deducting the listing expenses of approximately HK\$45.0 million, was approximately HK\$80.0 million.

An analysis of the amount utilised up to 31 December 2019 is set out below:

	Net proceeds (HK\$' million)		
	Available	Utilised	Unutilised
Strengthen our production capacity	43.2	2.5	40.7
Repay our bank borrowings	12.4	12.4	–
Promote corporate image and brand building	8.8	0.9	7.9
Enhance design and development capabilities	7.2	0.4	6.8
Enhance quality assurance capabilities	3.6	0.6	3.0
General working capital	4.8	1.2	3.6
	<b>80.0</b>	<b>18.0</b>	<b>62.0</b>

From the Listing Date to 31 December 2019, the net proceeds from the Listing were utilised in accordance with the proposed applications set out in the Prospectus under the section headed “Future Plans and Use of Proceeds”, with the major delayed schedule of setting up our design laboratory and showroom in Hong Kong to the first half of 2020, and the construction of new building in Jiangxi production base is still being under the progress of preliminary feasibility construction plan.

The remaining net proceeds as at 31 December 2019 had been placed in interest-bearing deposits in banks in Hong Kong.

## DIRECTORS

### Executive Directors

**Mr. Kwok Kwan Fai (郭君暉) (“Mr. Joe Kwok”)**, aged 46, is an executive Director and the Chairman of our Board. Mr. Joe Kwok joined our Group in April 1998 and has over 20 years of experience in trading, manufacturing and design of eyewear products. He is primarily responsible for formulating overall business development strategies, overall management and administration and making major business decisions of our Group.

Mr. Joe Kwok obtained his Bachelor’s degree in Business (Accounting) from Monash University in August 1995. Prior to joining our Group, Mr. Joe Kwok worked as an audit trainee in K. L. Wong & Co., which was an accounting firm, from June 1995 to June 1996 and was employed by Manulife (International) Limited from March 1996 to December 1997 as an agent and his last position was unit manager.

Mr. Joe Kwok has been holding directorship in certain subsidiaries of the Company. Mr. Joe Kwok is a director of Conquer Holding Limited (a company which is interested in 75% shareholding interest of the Company).

Mr. Joe Kwok is the son of Mr. Kwok Mau Kwan and Ms. Chan Yin Wah, who are non-executive Directors of the Company, and is the brother of Mr. Kwok Kwan Yu, who is an executive Director and the chief executive officer of the Company.

**Mr. Kwok Kwan Yu (郭君宇) (“Mr. Ken Kwok”)**, aged 42, is an executive director and the chief executive officer of our Company. Mr. Ken Kwok joined our Group in December 1999 and has over 18 years of experience in trading, manufacturing and design of eyewear products. He is primarily responsible for making major operation decisions for our Group and supervising business administration of our Group.

Mr. Ken Kwok completed his secondary education in Hong Kong in July 1995. Mr. Ken Kwok has been holding directorship in certain subsidiaries of the Company. Mr. Ken Kwok is a director of Conquer Holding Limited (a company which is interested in 75% shareholding interest of the Company).

Mr. Ken Kwok is the son of Mr. Kwok Mau Kwan and Ms. Chan Yin Wah, who are non-executive Directors of the Company, and is the brother of Mr. Joe Kwok, who is an executive Director and the Chairman of our Board.



# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## Non-Executive Directors

**Mr. Kwok Mau Kwan** (郭茂群) (“**Mr. Kwok**”), aged 76, is a non-executive Director of our Company. Mr. Kwok co-founded our Group with an independent third party in April 1986. He has over 32 years of experience in trading, manufacturing and design of eye wear products and is currently the honorary chairman of Jiangxi Yingtan Optical Industry Association (江西鷹潭眼鏡行業協會) and a committee member of the First Chinese People’s Political Consultative Conference of Yujiang District, Yingtan (政協鷹潭市余江區第一屆委員會會員). He is primarily responsible for participating in formulating the corporate and business strategies of our Group. Mr. Kwok completed his secondary education in the PRC in June 1962.

Mr. Kwok is the spouse of Ms. Chan Yin Wah, a non-executive Director of the Company, father of Mr. Joe Kwok and Mr. Ken Kwok, both being the executive Directors of the Company.

**Ms. Chan Yin Wah** (陳燕華) (“**Mrs. Kwok**”), aged 69, is a non-executive Director of our Company. She joined our Group in August 1987 and has over 30 years of experience in trading, manufacturing and design of eye wear products. She is primarily responsible for participating in formulating the corporate and business strategies of our Group. Mrs. Kwok completed her secondary education in Hong Kong in July 1967.

Mrs. Kwok is the spouse of Mr. Kwok, a non-executive Director of the Company, mother of Mr. Joe Kwok and Mr. Ken Kwok, both being the executive Directors of the Company.

## Independent Non-executive Directors

**Mr. Chan Hon Wah** (陳漢華), aged 68, was appointed as an independent non-executive Director of our Company on 22 June 2019. He is the chairman of the remuneration committee of the Company, and a member of the audit committee, nomination committee and risk management committee of the Company. Mr. Chan has more than 39 years of experience in the field of accounting, corporate finance and management. Mr. Chan obtained a Master’s degree in Business Administration (Investment and Finance) from The University of Hull in June 1997. He was admitted as a member of the Certified General Accountants Association of Canada in September 1992. He was admitted as a chartered professional accountant member of the Chartered Professional Accountants of British Columbia, Canada in June 2015.

Mr. Chan worked in The Bank of Nova Scotia from January 1979 to June 1986 and then again from April 1989 to July 2007 and his last position was vice-president. Mr. Chan was a chief operations officer of EPI (Holdings) Limited, a company listed on the Stock Exchange (Stock Code: 0689) with principal business of exploration and production of oil and gas from August 2007 to February 2011, a finance director of DSC Administration Limited, which was a furniture and electrical appliance retailer, from February 2012 to March 2013, and an executive director of China Kingstone Mining Holdings Limited, a company listed on the Stock Exchange (stock code: 1380) with principal business of production and sale of marble and marble-related products from July 2015 to December 2015. Mr. Chan was the chief executive officer of Best New Management Ltd from August 2015 to June 2018 with principal business of operation of a restaurant group under the brand name of Tamjai Samgor Mixian.

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Chu Kin Ming (朱健明)**, aged 39, was appointed as an independent non-executive Director of our Company on 22 June 2019. He is the chairman of the audit committee of the Company, and a member of the remuneration committee, nomination committee and risk management committee of the Company. Mr. Chu is currently an independent non-executive director of SK Target Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8427) since June 2017, an independent non-executive director of Optima Automobile Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8418) since October 2019, and an independent non-executive director of China Oil Gangran Energy Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8132) since February 2020. Currently, Mr. Chu is the company secretary of Sino-life Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8296) since June 2019.

Mr. Chu has more than 16 years working experience in the accounting and company secretary field. Mr. Chu served as a chief financial officer and company secretary of companies listed on the Stock Exchange.

Mr. Chu obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 2003. Mr. Chu was admitted as a member of the Hong Kong Institute of Certified Public Accountants in July 2008. He was admitted to graduateship of the Institute of Chartered Secretaries and Administrators in February 2009 and was elected as an associate in April 2009. Mr. Chu was admitted as an associate of the Taxation Institute of Hong Kong in September 2010. He became a fellow member of The Association of Chartered Certified Accountants in December 2012.

**Mr. Lee Wai Ming (李偉明)**, aged 52, was appointed as an independent non-executive Director of our Company on 22 June 2019. He is the chairman of the risk management committee of the Company, and a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Lee has more than 25 years of experience in the field of accounting, corporate finance and management. Mr. Lee obtained a Bachelor of Arts (Hons) degree in Accountancy from the Hong Kong Polytechnic University in November 1993. Mr. Lee was admitted as (i) a member of the Hong Kong Institute of Certified Public Accountants in July 1998; and (ii) a fellow of the Association of Chartered Certified Accountants in April 2003.

Mr. Lee started his career in Deloitte Touche Tohmatsu from July 1993 to December 2003 with his last position as a manager. He then served as the financial controller and company secretary in Dadi International Group Limited (formerly known as Milkyway Image Holdings Limited), a company listed on GEM of the Stock Exchange (stock code: 8130) with principal business of media and entertainment and advertising and marketing, from May 2004 to July 2007. From June 2010 to October 2013, Mr. Lee worked as the finance manager of Viva China Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8032) with principal business of provision of sport-related services and property and community development. From October 2013 to December 2016, Mr. Lee served as the financial controller and company secretary in Wealth Glory Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8269) with principal business of trading of coal, manufacturing and trading of consumer goods. In September 2017, Mr. Lee joined ArtGo Holdings Limited, a company listed on the Stock Exchange (stock code: 3313) with principal business of mining, processing, trading and sales of marble stone and trading of commodities, as the chief financial officer of the company and is now a business executive of the Company.

# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT AND COMPANY SECRETARY

**Ms. Tsang Wing Kiu (曾詠翹)**, aged 46, joined our Group on 15 April 2019 as chief financial officer and was subsequently appointed as company secretary on 3 May 2019. She has over 22 years of experience in accounting, finance and auditing. She is responsible for overseeing and supervising the financial management, accounting operations and regulatory compliance of our Group.

Ms. Tsang obtained a degree of bachelor of arts in business administration from the University of Greenwich in July 1995 and a degree of master of science in accountancy from The Hong Kong Polytechnic University in December 2006. She is a member of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Prior to joining our Group, Ms. Tsang worked as chief financial officer and company secretary at Satu Holdings Limited, a company listed on the Stock Exchange (stock code: 8392) with principal business of design, development and production management of homeware products for the period from 1 April 2017 to 31 December 2018. She worked at RSM Hong Kong, an international accounting firm, from April 2002 to September 2016 and her last position was senior manager. Ms. Tsang worked as an accountant or assistant accountant or accounting officer in various private companies in Hong Kong for the period from March 1996 to August 2001. Ms. Tsang is currently an independent non-executive director of Sang Hing Holdings (International) Limited, a company listed on the Stock Exchange (stock code: 1472) since March 2020.

Save as disclosed above, Ms. Tsang did not have any directorships in any listed company over the past three years and she does not have any relationship with any Director, substantial shareholder or controlling shareholder of our Company.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to upholding high standards of corporate governance practices and business ethics in the firm belief that they are crucial to improving the efficiency and performance of the Group and to safeguarding the interests of the shareholders. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance. Set out below are the principles of corporate governance as adopted by the Company during the year ended 31 December 2019.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed in maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from 1 January 2019 to 15 July 2019.

The Board is of the view that the Company has complied with all the applicable code provisions of the CG Code since the Listing Date up till 31 December 2019.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. As the Shares were listed on the Stock Exchange on the Listing Date, the Model Code was not applicable to the Company during the period from 1 January 2019 to 15 July 2019.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code throughout the period from the Listing Date to the date of this report.

## BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company. The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

As at 31 December 2019 and up to the date of this annual report, there are two executive Directors, two non-executive Directors, and three independent non-executive Directors of the Company. The composition of the Board is as follows:

### ***Executive Directors:***

Mr. Kwok Kwan Fai (*Chairman*)

Mr. Kwok Kwan Yu (*Chief Executive Officer*)

### ***Non-Executive Directors:***

Mr. Kwok Mau Kwan

Ms. Chan Yin Wah

### ***Independent Non-Executive Directors:***

Mr. Chan Hon Wah

Mr. Chu Kin Ming

Mr. Lee Wai Ming

The biographical details of each of the Directors are set out in the section headed "Biography of Directors and Senior Management" of this annual report. Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok are family members.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Save as disclosed, there was no financial, business, family or other material/relevant relationship among the Directors.

### Chairman and Chief Executive

The roles of the chairman and the chief executive officer of the Company have been separated as required by code provision A.2.1 of the CG Code. For the year ended 31 December 2019, Mr. Joe Kwok has served as the chairman of Company and Mr. Ken Kwok has served as the chief executive officer of the Company.

The chairman provides leadership and governance for the Board so as to create the conditions for the effective performance of the Board as a whole and effective contribution by individual Director and to ensure that the Board performs its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner. The chief executive officer has the delegated power to manage the Company and to oversee the activities of the Company on a day-to-day basis.

The division of responsibilities between the chairman and the chief executive officer is defined and established in writing.

### Board Meetings and Directors' Attendance Records

During the period from the Listing Date to the date of this report, the Company did not convene an annual general meeting, and three Board meetings were held. The Board held a meeting on 22 August 2019 and, amongst other matters, considered and approved the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019. The Board held a meeting on 20 December 2019 and, among other matters, considered the audit plan for the year 2019. The Board also held a meeting on 23 March 2020 and, amongst other matters, considered and approved the audited consolidated financial statements of the Group for the year ended 31 December 2019.

The attendance of the above meetings by each Director is as follows:

Name of directors	Attendance/Number of Meetings
<b>Executive Directors</b>	
Mr. Kwok Kwan Fai ( <i>Chairman</i> )	3/3
Mr. Kwok Kwan Yu	3/3
<b>Non-executive Directors</b>	
Mr. Kwok Mau Kwan	3/3
Ms. Chan Yin Wah	3/3
<b>Independent non-executive Directors</b>	
Mr. Chan Hon Wah	3/3
Mr. Chu Kin Ming	3/3
Mr. Lee Wai Ming	3/3

## Independent Non-executive Directors

During the period from the Listing Date to 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the independence requirement set out in the Listing Rules.

## Appointment and Re-election of Directors

Each of the executive Directors and non-executive Directors is engaged on a service agreement for a specific term of three years. Each of independent non-executive Directors is engaged on a letter of appointment for a specific term of one year.

The Articles of Association provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the next following general meeting of the Company.

Each Director (including those appointed for a specific term) shall also be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association of the Company.

## Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

## Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that they remain informed and relevant for their contribution to the Board.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2019, all Directors had complied with the code provision A.6.5 of the CG Code through attending training courses/briefing/seminars/conferences or reading materials relevant to the duties of Directors.

	Attending training courses/briefing/seminars/conference	Reading materials relevant to the duties of Directors
<b>Executive Directors</b>		
Mr. Kwok Kwan Fai	✓	✓
Mr. Kwok Kwan Yu	✓	✓
<b>Non-executive Directors</b>		
Mr. Kwok Mau Kwan	✓	✓
Ms. Chan Yin Wah	✓	✓
<b>Independent non-executive Directors</b>		
Mr. Chan Hon Wah	✓	✓
Mr. Chu Kin Ming	✓	✓
Mr. Lee Wai Ming	✓	✓



## BOARD COMMITTEES

The Board has established four Board committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee are posted on the Company's website and the Stock Exchange's website and are available to the Shareholders upon request.

The majority of the members of the Remuneration Committee, Audit Committee, Nomination Committee and Risk Management Committee are independent non-executive Directors.

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

### Audit committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming, Mr. Chu Kin Ming being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal controls system of the Group, assist the Board to fulfill its responsibility over the audit, and review and approve connected transactions and to advise the Board.

The Audit Committee is also responsible for performing the functions set out in code provision D.3.1 of the CG Code. These include developing and reviewing the Company's policies and practice on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

During the period from the Listing Date to the date of this report, three Audit Committee meetings were held. It had reviewed and discussed the interim and annual financial statements, the interim results announcement and report, annual results announcement and report, the accounting principles and practices adopted by the Group and the effectiveness of the internal control of the Group and recommended the re-appointment of auditor to the Board.

The attendance records of the members of the Audit Committee are as follows:

Name of directors	Attendance/Number of Meetings
Mr. Chu Kin Ming ( <i>Chairman</i> )	3/3
Mr. Chan Hon Wah	3/3
Mr. Lee Wai Ming	3/3

The Company's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

### Remuneration committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of four members, namely Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming, the independent non-executive Directors, and Mr. Joe Kwok, the chairman of the Board and an executive Director. Mr. Chan Hon Wah is the chairman of the committee. The majority of the Remuneration Committee members are independent non-executive Directors.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management.

Since the Listing Date and up to the date of this annual report, two meetings of the Remuneration Committee were held. It had reviewed the Company's remuneration policy, made recommendations to the Board on the structure and the remuneration package for Directors and senior management, and assessed the performance of the executive Directors. The attendance records of the members of the Remuneration Committee are as follows:

Name of directors	Attendance/Number of Meetings
Mr. Chan Hon Wah ( <i>Chairman</i> )	2/2
Mr. Chu Kin Ming	2/2
Mr. Lee Wai Ming	2/2
Mr. Kwok Kwan Fai	2/2

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2019 is as follows:

Remuneration band (in HK\$)	Number of individuals
1,000,000 to 1,500,000	1

Details of the Directors' remuneration are set out in note 14 to the consolidated financial statements in this annual report.

## Nomination committee

The Nomination Committee consists of four members, namely Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming, the independent non-executive Directors, and Mr. Joe Kwok, the chairman of the Board and executive Director. Mr. Joe Kwok is the chairman of the committee. The majority of the Nomination Committee members are independent non-executive Directors.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Nomination Committee are to make recommendations to our Board regarding the appointment of Directors and Board succession.

The Board has adopted a board diversity policy on 22 June 2019 (the “**Board Diversity Policy**”). A summary of the Board Diversity Policy is set out below:

- The Board Diversity Policy aims to set out the approach to achieve diversity in the Company’s Board.
- The Board Diversity Policy statement that the Company seeks to achieve the diversity of the Board through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. All Board appointments will be based on merit while taking into account diversity.
- The measurable objectives are as follows:
  - The Company endeavours to ensure that the Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy.
  - The Nomination committee will discuss and agree annually measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption.

The Nomination Committee has adopted a nomination policy which set out a set of nomination procedures and selection criteria for directors. The Nomination Committee shall evaluate and select candidates based on the criteria by reference to character and integrity, business experience relevant and beneficial to the Company, qualifications including professional qualifications, skills and knowledge that are relevant to the Company’s business and corporate strategy, willingness to devote adequate time to discharge duties as a member of the Board and other significant commitments, present needs of the Board for particular expertise, skills or experience and whether the candidates would satisfy those needs, requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates for independent directors would be considered independent with reference to the independence guidelines set out in the Listing Rules and the Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board.

Since the Listing Date and up to the date of this annual report, one meeting of the Nomination Committee was held. It had reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors, made recommendations to the Board on the re-appointment of Directors and reviewed and made recommendations to the Board on the nomination policy. The attendance records of the members of the Nomination Committee are as follows:

<b>Name of directors</b>	<b>Attendance/Number of Meetings</b>
Mr. Kwok Kwan Fai ( <i>Chairman</i> )	1/1
Mr. Chan Hon Wah	1/1
Mr. Chu Kin Ming	1/1
Mr. Lee Wai Ming	1/1

### **Risk Management committee**

The Risk Management Committee consists of three independent non-executive Directors, namely Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming. Mr. Lee Wai Ming is the chairman of the committee.

The terms of reference of the Risk Management Committee are of no less exacting terms than those set out in the CG Code. The primary duties of our risk management committee are, among other things, to improve the risk management practices of the Company, and to assess the sanctions-related risks which the Group may be exposed to from time to time.

Since the Listing Date and up to the date of this annual report, one meeting of the Risk Management Committee was held. It had reviewed the risk management systems and assessed the sanction risk exposing to the Group. The attendance records of the members of the Risk Management Committee are as follows:

<b>Name of directors</b>	<b>Attendance/Number of Meetings</b>
Mr. Lee Wai Ming ( <i>Chairman</i> )	1/1
Mr. Chan Hon Wah	1/1
Mr. Chu Kin Ming	1/1

## RISK MANAGEMENT AND INTERNAL CONTROL

During the year ended 31 December 2019, the Group has, in connection with the listing process, engaged an independent internal control consultant to a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers that the Group's risk management and internal control are adequate and effective. The Group does not have an internal audit function and will engage an external party to review risk management and internal control systems annually.

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2019.

The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditors' Report" of this annual report.

## DIVIDEND POLICY

The Company has adopted a dividend policy on 23 March 2020. The dividend distribution ratio shall be determined by the Board from time to time. The declaration and payment of dividends shall be determined by the Board, which is also in the best interests of the Group and shareholders of the Company. In addition, the final dividend for any financial year is subject to shareholders' approval. The remaining net profit will be used for the operation and development of the Group. When determining whether to propose dividends and determining the amount of dividends, the Board should consider, among other things, the following factors:

- (i) current and future business, actual and expected financial results of the Company;
- (ii) any development plan of the Company;
- (iii) liquidity position, working capital and capital expenditure requirements and future expected capital requirements of the Group;

- (iv) the debt-to-equity ratio, return-on-equity ratio and the level of the relevant financial contracts of the Group;
- (v) any restrictions on the payment of dividends may be imposed by the lenders of the Group or other third parties;
- (vi) retained earnings and distributable reserves of the Group and each member of the Group;
- (vii) general economic conditions, the business cycle of the Group's business as well as other internal and external factors that may affect the Company or financial results and position; and
- (viii) any other factors that the Board considers appropriate and relevant.

The declaration and payment of dividends are subject to any restrictions under the Cayman Islands Company Law, any applicable laws, rules and regulations, including the Listing Rules and the Articles of Association of the Company.

## AUDITORS' REMUNERATION

For the year ended 31 December 2019, RSM Hong Kong was engaged as the Group's independent auditors. Apart from the provision of annual audit services, RSM Hong Kong provided the audit and non-audit services in connection with the listing of the Shares and tax filing services.

The remuneration paid/payable to RSM Hong Kong, the auditors, for the year ended 31 December 2019 is set out below:

<b>Services</b>	<b>Fee paid/payable HK\$'000</b>
Audit services – annual audit services	1,000
Audit services – listing services (included in listing expenses)	807
Non-audit services (included listing services and tax filing services)	143
	<hr/>
<b>Total</b>	<b>1,950</b>
	<hr/>

## COMPANY SECRETARY

The Company has appointed Ms. Tsang Wing Kiu (“**Ms. Tsang**”) as the Company Secretary with effect from May 2019. She is also Chief Financial Officer of the Company and serve as the secretary of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

Ms. Tsang attended sufficient professional training as required under the Listing Rules for the year ended 31 December 2019 to update her skills and knowledge.

## SHAREHOLDERS’ RIGHTS

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an Extraordinary General Meeting

Pursuant to article 64 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the written requisition of one or more members deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

### Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the “Procedures for a Shareholder to Propose a Person for Election as a Director” of the Company which is posted on the Company’s website.

## Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

## Contact Details

Shareholders may send their enquiries or requests to the Board as mentioned above via the following channels:

Address: Workshops 1605-1606, 16/F, Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong

Email: [customerservice@kelfred.com](mailto:customerservice@kelfred.com)

Attention: Chairman of the Board and the Company Secretary

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at [www.kelfred.com.hk](http://www.kelfred.com.hk) as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

## CONSTITUTIONAL DOCUMENTS

In preparation for the Listing, the Company has adopted the amended and restated Memorandum and Articles of Association pursuant to a special resolution passed at an extraordinary general meeting on 22 June 2019, which became effective on the Listing Date. Since then, the Company has not made any changes to its Memorandum and Articles of Association. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and of the Stock Exchange.



# REPORT OF THE DIRECTORS

The directors of the Company (the “**Directors**”) are pleased to present their report together with the audited consolidated financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group are principally engaged in manufacturing and sales in eyewear products. The principal activities of the Company’s principal subsidiaries are set forth in note 19 to the consolidated financial statements.

An analysis of the Group’s performance for the year ended 31 December 2019 by operating segment is set out in note 7 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the “Chairman’s Statement” and “Management Discussion and Analysis” of this annual report.

## RESULTS

The results of the Group for the year ended 31 December 2019 and the financial position of the Group as at 31 December 2019 are set forth in the consolidated financial statements on pages 59 to 62 of this annual report.

## DIVIDENDS

The Board has recommended the payment of a final dividend of HK\$0.02 per ordinary share for the year ended 31 December 2019. This proposed final dividend is subject to the approval of the shareholders of the Company (the “**Shareholders**”) at the forthcoming annual general meeting (the “**AGM**”) to be held on Friday, 22 May 2020, and will be paid on or about Monday, 22 June 2020 to those Shareholders whose names appear on the Company’s register of members on Monday, 1 June 2020.

During the year ended 31 December 2018, dividends of approximately HK\$87.6 million were declared by wholly-owned subsidiaries and of HK\$2.0 million was declared a partially-owned subsidiary, and which were distributed to the then shareholders.

## FIXED ASSETS

Details of the movements during the year ended 31 December 2019 in property, plant equipment and right-of-use assets are set out in notes 17 and 18 to the consolidated financial statements, respectively.

The Group’s property interests located in the PRC as at 30 April 2019 have been valued by an independent property valuer and the amount of such valuation of the properties was approximately RMB22.0 million. The revaluation surplus has not been recorded in the consolidated financial statements of the Group as the Group’s property, plant and equipment and right-of-use assets are stated at cost less accumulated depreciation and impairment loss, if any. If the revaluation surplus were recorded in the Group’s consolidated financial statements, addition annual depreciation and amortisation of approximately RMB0.2 million would be charged against the consolidated statement of profit or loss and other comprehensive income.

## SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2019 are set out in note 28 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles of Association**") or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the Shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2019, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$95.5 million (2018: HK\$Nil).

## TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to Shareholders by reason of their holding of the Company's securities.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 18 May 2020.

The register of members of the Company will be closed from Thursday, 28 May 2020 to Monday, 1 June 2020, both days inclusive, for the purpose of ascertaining shareholders' entitlement of the proposed final dividend. In order to be qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 27 May 2020.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities, and non-controlling interests of the Group for the last four financial years, as extracted from the audited consolidated financial statements of the Company or the Prospectus, is set out on pages 5 to 6 of the annual report.

# REPORT OF THE DIRECTORS

## DIRECTORS

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

### ***Executive Directors:***

Mr. Kwok Kwan Fai (*Chairman*)

Mr. Kwok Kwan Yu (*Chief Executive Officer*)

### ***Non-Executive Directors:***

Mr. Kwok Mau Kwan

Ms. Chan Yin Wah

### ***Independent Non-Executive Directors (The “INEDS”):***

Mr. Chan Hon Wah (appointed on 22 June 2019)

Mr. Chu Kin Ming (appointed on 22 June 2019)

Mr. Lee Wai Ming (appointed on 22 June 2019)

The Company has received written confirmations of independence from each of the INEDs, namely Mr. Chan Hon Wah, Mr. Chu Kin Ming and Mr. Lee Wai Ming, pursuant to Rule 3.13 of the Listing Rules. As at the date of this report, the Company still considers the INEDs to be independent.

### ***Retirement and re-election of Directors***

In accordance with Article 108 of the Articles of Association, at each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

According to Article 112 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed under this Article shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting. Accordingly, all Directors will retire and, being eligible, offer themselves for re-election at the forthcoming AGM, being the first annual general meeting of the Company after the Listing.

## DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors and non-executive Directors has entered into a service contract with the Company for a term of three years, commencing from the Listing Date. Each of our independent non-executive Directors has entered into an appointment letter with the Company for a term of one year, commencing from the Listing Date.

All of them are subject to retirement by rotation and re-election at the AGM in accordance with the Articles of Association. Their emolument were determined by the Board by reference to their experience, responsibilities and duties with the Company and shall be reviewed annually by the Remuneration Committee. The details of the remuneration of each of the Directors are revealed on note 14 to the consolidated financial statements.

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

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

Save as disclosed in this report and note 34 to the consolidated financial statements, no other transactions, arrangements and contracts of significance to which the Company's subsidiaries or its parent company was a party and in which a director of the Company and an entity connected with a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Save for transactions in connection with the reorganisation in preparation for the listing of the shares on the Stock Exchange, as disclosed in the Prospectus and save as disclosed elsewhere in this annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Group's controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries was made.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 15 to 18 of this annual report.

## CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed in this annual report, there was no change to any information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules from the Listing Date to 31 December 2019.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF OUR COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)) (“SFO”) which will be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules, are set out as follows:

### (a) Long position in Shares

Name of Director	Capacity/nature of interest	Number of Shares (Note 4)	Approximate percentage of shareholding interests of the Company
Mr. Kwok Kwan Fai (“Mr. Joe Kwok”)	Interest in a controlled corporation (Note 1)	375,000,000 (L)	75%
Mr. Kwok Kwan Yu (“Mr. Ken Kwok”)	Interest in a controlled corporation (Note 1)	375,000,000 (L)	75%
Ms. Chan Yin Wah (“Mrs. Kwok”)	Interest in a controlled corporation; interest held jointly with another person (Note 2)	375,000,000 (L)	75%
Mr. Kwok Mau Kwan (“Mr. Kwok”)	Interest of Spouse (Note 3)	375,000,000 (L)	75%

Notes:

1. Conquer Holding Limited (“Conquer”), being the registered and beneficial owner of these shares, is owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok. As each of Mr. Joe Kwok and Mr. Ken Kwok holds 49% shareholding interest in Conquer, each of Mr. Joe Kwok and Mr. Ken Kwok is deemed to be interested in the Shares held by Conquer under the SFO. Each of Mr. Joe Kwok and Mr. Ken Kwok is a director of Conquer.

2. On 3 January 2019, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the confirmatory deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of our Group since their respective dates of incorporation and shall continue to do so after the date of the confirmatory deed. Details of the confirmatory deed are set out in the paragraph headed “History, Reorganisation and Group Structure – Parties acting in concert” in the Prospectus. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer are considered as a group of Controlling Shareholders and Mrs. Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
3. Mr. Kwok is the spouse of Mrs. Kwok and is deemed to be interested in all the Shares interested by Mrs. Kwok for the purposes of the SFO.
4. The Letter “L” denotes the entity/person’s long interest in our Shares.

**(b) Long position in Conquer, an associated corporation of the Company**

Name of Director	Capacity/nature of interest	Percentage of the issued share capital of Conquer
Mr. Joe Kwok	Beneficial owner	49%
Mr. Ken Kwok	Beneficial owner	49%
Mrs. Kwok	Beneficial owner	2%

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time for the period from the Listing Date and up to 31 December 2019 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as our Directors are aware, the persons (other than the Directors and chief executive of the Company) who will have or be deemed or taken to have interests and/or short positions in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or who were recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the Company's issued share capital will be as follows:

Name of Substantial Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of shareholding interests of the Company
Conquer <sup>(Note 2)</sup>	Beneficial owner	375,000,000 (L)	75%
Ms. Lee Man Yee Joanna (" <b>Ms. Lee</b> ") <sup>(Notes 2 and 3)</sup>	Interest of spouse	375,000,000 (L)	75%
Ms. Siu Fong Ting Tammy (" <b>Ms. Siu</b> ") <sup>(Notes 2 and 4)</sup>	Interest of spouse	375,000,000 (L)	75%

Notes:

- The Letter "L" denotes the entity/person's long interest in our Shares.
- Conquer, being the registered and beneficial owner of these shares, is owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok. As each of Mr. Joe Kwok and Mr. Ken Kwok hold 49% shareholding interest in Conquer, each of Mr. Joe Kwok and Mr. Ken Kwok is deemed to be interested in the Shares held by Conquer under the SFO. Each of Mr. Joe Kwok and Mr. Ken Kwok is a director of Conquer.
- Ms. Lee is the spouse of Mr. Joe Kwok and is deemed to be interested in all the Shares interested by Mr. Joe Kwok (via his 49% shareholding interest in Conquer) for the purposes of the SFO.
- Ms. Siu is the spouse of Mr. Ken Kwok and is deemed to be interested in all the Shares interested by Mr. Ken Kwok (via his 49% shareholding interest in Conquer) for the purposes of the SFO.

Save as disclosed herein, the Directors are not aware of any person (other than the Directors and the chief executive of the Company) who has, as at the date of this report (without taking into account any options which may be granted under the share option scheme), an interest or short position in the Shares or underlying Shares, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 5% of the issued voting shares of any other member of the Group.

## DIRECTORS' EMOLUMENT POLICY

The Remuneration Committee was established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group having regard to the Group's operating results, individual performance and comparable market standard and practices. The Company has adopted a share option scheme as an incentive to the Directors and eligible employees, details of which are set out in the section headed "Share Option Scheme" below.

## SHARE OPTION SCHEME

On 22 June 2019, the then sole shareholder of the Company approved and conditionally adopted a share option scheme (the "**Share Option Scheme**") to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. The principal terms of the Share Option Scheme were summarised in the section headed "Share Option Scheme" in Appendix V to the Prospectus. No option has been granted up to the date of this report.

As at 31 December 2019 and to the date of this report, no option had been granted or to be granted under the Share Option Scheme.

The following is a summary of the principal terms of the Share Option Scheme.

### 1. Purpose of the Share Option Scheme

The Share Option Scheme is an incentive scheme and is established to recognise and motivate the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants (as defined below) with an opportunity to acquire proprietary interests in our Company with the view to achieve the following principal objectives:

- (a) motivate the Eligible Participants (as defined below) to optimise their performance and efficiency for the benefit of our Group; and
- (b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants (as defined below) whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, "Eligible Participants" means any person who satisfies the eligibility criteria in paragraph 2 below.

### 2. Who may join and basis of eligibility

Our Board may at its discretion grant options to:

- (i) any Eligible Employees. "**Eligible Employees**" means any employees (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital ("**Invested Entity**");



- (ii) any non-executive director (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services of any member of our Group or any Invested Entity;
- (iv) any customer of any member of our Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, offer for the grant of an option (“Offer”) may be made to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by our Directors (or as the case may be, the independent non-executive Directors) from time to time on the basis of his/her contribution or potential contribution to the development and growth of our Group.

### 3. Subscription Price of Shares

The subscription price for any Share under the Share Option Scheme shall be subject to any adjustments made pursuant to paragraph 14 below, be a price determined by our Directors and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the Shares on the offer date, which must be a day on which the Stock Exchange is open for the business of dealing in securities (a “Trading Day”); (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the offer date; and (iii) the nominal value of a Share on the offer date.

#### 4. Grant of options and acceptance of offers

An Offer shall be deemed to have been accepted by an Eligible Participant when our Company receives the letter containing the Offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as our Directors may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the Offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the offer date, which must be a Trading Day, on which the option was made to an Eligible Participant.

#### 5. Maximum number of Shares

- (i) Subject to sub-paragraphs (ii) to (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) unless approved by our Shareholders pursuant to sub-paragraph (iii) below. Options lapsed in accordance with the terms of the scheme(s) will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (ii) Subject to sub-paragraphs (iii) and (iv) below, the Scheme Mandate Limit may be renewed by our Shareholders in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by our Shareholders. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to our Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.
- (iii) Subject to sub-paragraph (iv) below, our Directors may seek separate Shareholders’ approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to our Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.

- (iv) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by our Group if such grant will result in the said 30% limit being exceeded.

### 6. Maximum entitlement of each participant

No option shall be granted to any Eligible Participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the following requirements:

- (i) approval of our Shareholders at general meeting, with such Eligible Participant and his/her close associates (or his/her associates if the Eligible Participant is a connected person) abstaining from voting;
- (ii) a circular in relation to the proposal for such further grant must be sent by our Company to our Shareholders with such information from time to time as required by the Listing Rules;
- (iii) the number and terms of the options to be granted to such proposed grantee shall be fixed before our Shareholders' approval mentioned in (i) above; and
- (iv) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.

### 7. Requirements on granting options to certain connected persons

Any grant of options to any Director, chief executive or substantial Shareholder of our Company, or any of their respective associates, must be approved by our independent non-executive Directors (excluding an independent non-executive Director who or whose associate is a proposed grantee of an option).

Where any grant of options to a substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the total number of the 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:

- (i) representing in aggregate over 0.1% of the total number of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of such grant, in excess of HK\$5 million,

such further grant of options must be approved by our Shareholders by poll in general meeting where the grantee, his/her associates and core connected persons of our Company must abstain from voting in favour at such general meeting. Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules.

### **8. Restrictions on the time of grant of options**

No option shall be granted after “Inside Information” (as defined in the SFO) has come to the knowledge of our Company until our Company has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company’s results for any year, half-year or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce our results for any year or half-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement.

Our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

### **9. Time of exercise of option**

An option may (and may only) be exercised in accordance with the terms and conditions of the offer at any time during a period to be determined by our Directors which shall not exceed 10 years from the offer date subject to the provisions for early termination contained in the Offer and the Share Option Scheme, and provided that our Directors may determine the minimum period for which an option has to be held or other restrictions before its exercise.

The grantee shall not exercise an option to the extent that the public float of our Company will be less than 25% (or such higher percentage as required by the Stock Exchange or the Listing Rules) of the issued share capital of our Company immediately after the issue and allotment of the Shares upon such exercise of the option.

### 10. Performance targets

Save as determined by our Directors and provided in the Offer, a grantee is not required to achieve any performance target before the options can be exercised.

### 11. Ranking of Shares

The Shares to be allotted and issued upon exercise of an option shall be subject to all the provisions of the Articles of Association for the time being in force and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the allotment date. Any Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of our Company as the holder thereof.

### 12. Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do.

### 13. Rights on cessation of employment

- (i) In the event of death of the grantee (being an individual) before exercising the option in full, his/her personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his/her death and not already exercised) within a period of 12 months following his/her death or such longer period as our Directors may determine.
- (ii) In the event of the grantee who is an Eligible Employee ceasing to be an Eligible Employee for any reason other than his/her death, or the termination of his/her employment pursuant to paragraph 18(v), the grantee may exercise the option (to the extent exercisable as at the date of such cessation and not already exercised) within 30 days following such cessation or such longer period as our Directors may determine. The date of cessation as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine.

#### 14. Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company while an option remains exercisable or the Share Option Scheme remains in effect, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, sub-division or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate (insofar as it is/they are unexercised); and/or (ii) the subscription price; and/or (iii) the method of exercise of the options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must be made in compliance with the Listing Rules and give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value provided that in such circumstance, the subscription price shall be reduced to the nominal value. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of our Company or the auditors of our Company must confirm to our Board in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

#### 15. Rights on a general offer

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner, is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the offer becomes or is declared unconditional and not already exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

### 16. Rights on winding-up

In the event notice is given by our Company to our Shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise all or any of his/her options (to the extent exercisable as at the date of the notice of meeting and not already exercised) at any time not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company to consider the winding-up and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

### 17. Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our members or creditors being proposed in connection with a scheme for the restructuring, reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same date as we give notice of the meeting to our members or creditors to consider such a scheme, and thereupon the grantee shall be entitled to exercise all or any of his/her option(s) (to the extent which has become exercisable as at the date of the notice and not already exercised) at any time not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

### 18. Lapse of options

An option (to the extent not already exercised) shall automatically lapse and not be exercisable on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph 13 above;
- (iii) subject to paragraph 16 above, the date of the commencement of the winding-up of our Company;
- (iv) the expiry of the period referred to in paragraph 17 above;

- (v) the date on which the grantee who is an Eligible Employee ceases to be an Eligible Employee by reason of summary dismissal or being dismissed for misconduct or other breach of the terms of his/her employment contract or other contract constituting him/her an Eligible Employee, or the date on which he/she begins to appear to be unable to pay or has no reasonable prospect of being able to pay his/her debts or has become insolvent or has made any arrangements or composition with his/her creditors generally or on which he/she has been convicted of any criminal offence involving his/her integrity or honesty, unless otherwise resolved to the contrary by our Directors;
- (vi) in respect of a grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (i)(a) such grantee has committed any breach of any contract entered into between such grantee on one part and our Group or any Invested Entity on the other part; or (b) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his/her creditors generally; or (c) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of his/her relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in subparagraph (i)(a), (b) or (c) above, unless otherwise resolved to the contrary by our Directors;
- (vii) the expiry of the period referred to in paragraph 15 above; and
- (viii) the date on which the grantee commits a breach of paragraph 12 or any terms or conditions attached to the grant of the option or an event, in respect to a grantee, referred to in sub-paragraph (2) below occurs, unless otherwise resolved to the contrary by our Directors.

If the grantee is a company wholly owned by one or more Eligible Participants:

- (1) the provisions of paragraphs 13(i) and 13(ii), 18(v) and 18(vi) shall apply to the grantee and to the options granted to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 13(i) and 13(ii), 18(v) and 18(vi) shall occur with respect to the relevant Eligible Participant; and
- (2) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant,

provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.



### 19. Cancellation of options granted but not yet exercised

Our Directors shall have absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued options (excluding the cancelled options) within the limit approved by our Shareholders as mentioned in the Share Option Scheme from time to time.

### 20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective until the termination date which falls 10 years after the adoption date, after which no further options may be issued. Subject to the above, in all other respects, in particular, in respect of options remaining outstanding, the provisions of the Share Option Scheme shall remain in full force and effect.

Our Directors may impose such terms and conditions of the Offer of grant either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme including but not limited to the minimum period for which an option must be held before it can be exercised.

### 21. Alteration to the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme may be altered in any respect by resolution of our Directors except that the terms and conditions of the Share Option Scheme relating to matters set out in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) cannot be altered to the advantage of grantees or prospective grantees without the prior approval of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction of such majority of the grantee as would be required of our Shareholders under the Articles for the time being of our Company for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of our Directors or administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant provisions of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Scheme).

Subject to the above paragraphs, our Directors may at any time alter, amend or modify the terms and conditions of the Share Option Scheme such that the provisions of the Share Option Scheme would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by our Directors to implement the terms of the Share Option Scheme.

### **22. Termination to the Share Option Scheme**

Our Company by ordinary resolution in general meeting or our Directors may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

## **ENVIRONMENTAL POLICIES AND PERFORMANCE**

The Group is committed to contributing to the sustainability of the environment and the development of the society. Details of the Group's development, performance and operation in the environmental aspect will be set out in the Environmental, Social and Governance Report to be published within 3 months from the date of this annual report.

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

The Group is constantly aware of the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. We encourage employees to strengthen their knowledge of the industries in which the Group operate and attend courses or training sessions to improve their relevant industry and technical knowledge. The Group also maintains ongoing communications with its employees, customers and suppliers through various channels such as regular meetings, calls and emails in order to allow employees to contribute to the development of the Group, deliver better customer services to our clients and obtain better services and cooperation from our suppliers.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Group has adopted internal control and risk management policies to monitor the on-going compliance with relevant laws and regulations. As far as the Board is concerned, the Group has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries in all material aspects.

# REPORT OF THE DIRECTORS

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

– the largest supplier	7.1%
– five largest suppliers in aggregate	22.4%

### Sales

– the largest customer	25.9%
– five largest customers in aggregate	77.5%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the period from the Listing Date and up to 31 December 2019, the Group had entered into fully exempt continuing connected transactions, which are exempted from the reporting, annual review, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules. For details of the fully exempt continuing connected transactions, please refer to the section headed “Continuing Connected Transactions” in the Prospectus.

The related party transactions entered into by the Group during the year ended 31 December 2019 as disclosed in note 34(a) to the consolidated financial statements constituted fully exempted connected transaction and continuing connected transactions under the Listing Rules.

Save as disclosed in this annual report, during the period from the Listing Date and up to 31 December 2019, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A 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, it is confirmed that there is sufficient public float of at least 25% of the Company’s issued shares throughout the period from the Listing Date to the date of this annual report.

## PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance cover for Director’s and officers’ liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Pursuant to the Articles of Association, 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 shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty.

# REPORT OF THE DIRECTORS

## COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling shareholders (as defined in the Listing Rules) of the Company nor any of their respective associates (as defined in the Listing Rules) that competed or might compete, either directly or indirectly, with the business of the Group and any other conflicts of interest which any such person had or might have with the Group during the year.

As set out in the Prospectus, the Company has adopted, among others, the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of the shareholders: (i) the Company will disclose decisions on matters reviewed by the INEDs relating to compliance and enforcement of the deed of non-competition dated 22 June 2019 entered into by the controlling shareholders in favour of the Company competing interests ("**Non-competition Undertaking**") in the annual report; and (ii) the controlling shareholders will make an annual declaration on compliance with their Non-competition Undertaking in the annual report.

The controlling shareholders confirmed that they have complied with their undertaking under the Non-competition Undertaking for the year ended 31 December 2019.

The INEDs have reviewed and confirmed that the controlling shareholders have complied with all the undertakings under the Non-competition Undertaking for the year ended 31 December 2019.

## EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and operating results at the date of this report.

## AUDITOR

The consolidated financial statements have been audited by RSM Hong Kong who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

By order of the Board  
**Kwok Kwan Fai**  
*Chairman and Executive Director*

Hong Kong, 23 March 2020



**RSM**

29th Floor  
Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

## **TO THE SHAREHOLDERS OF KELFRED HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of Kelfred Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 59 to 128, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the “HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **BASIS FOR OPINION**

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are estimation of the net realisable value of inventories and impairment assessment on trade receivables.

### Key Audit Matter

#### Estimation of the net realisable value of inventories

Refer to notes 4(e) and 21 to the consolidated financial statements respectively.

As at 31 December 2019, the Group's inventories, net of allowance for inventories of HK\$670,000, amounted to HK\$74,059,000 which represented 23.9% of the Group's total assets.

Inventories are carried at the lower of cost and net realisable value. Net realisable value is determined based on the estimated selling price less the estimated costs of completion, if relevant, other costs necessary to make the sale for eyewear.

We focused on this area because of the significance of the inventories balance and the management judgements involved in identifying inventories subject to write-down and determining their net realisable value.

### How our audit addressed the Key Audit Matter

Our procedures in relation to management's estimation of the net realisable value of inventories included:

- Noting any slow moving and obsolete inventories during our attendance/observation of the physical inventory count at year end;
- Testing inventories to assess if they are stated at the lower of cost or net realisable value by comparing the actual sales value to the carrying value of selected samples of inventories;
- Testing on a sample basis the inventory ageing analysis of the Group at year end, and reviewing subsequent usage and sales of inventories after year end, taking into consideration the impact of changes in technology and customers' preference and our knowledge of the Group's business operations and the industry in which the Group operates; and
- Discussed with the management in respect of the adequacy of the allowance made by the management based on aging analysis and individual assessments.

## Key Audit Matter

### Impairment assessment on trade receivables

Refer to notes 4(i), 4(r) and 22 to the consolidated financial statements respectively.

As at 31 December 2019, the Group's trade receivables amounted to HK\$90,266,000, which represented 29.1% of the Group's total assets.

The Group's trading terms with customers are ranged from 30 days to 120 days, depending on the creditworthiness of customers and the existing relationship with the Group.

Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. We identified assessing the recoverability of trade receivable as key audit matter because the assessment of the recoverability of trade receivables and recognition of loss allowance are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.

## How our audit addressed the Key Audit Matter

Our procedures in relation to assessing the recoverability of trade receivables included:

- Assessing whether trade receivables had been appropriately grouped by management based on their shared credit risk characteristics;
- Obtaining and examining the assessment report of expected credit losses of trade receivables, prepared by the external valuer engaged by the Group;
- Evaluating the independence, qualifications, expertise and objectivity of the external valuer;
- Testing the accuracy and completeness of the data used by the valuer to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data;
- Testing the accuracy of the aging of trade receivables on a sample basis to supporting documents; and
- Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade receivables outstanding at the reporting date.



# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION AND AUDITOR'S REPORT THEREON

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

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

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

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Liu Eugene.

**RSM Hong Kong**  
Certified Public Accountants  
Hong Kong  
23 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	<i>Note</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
<b>Revenue</b>	7	<b>413,395</b>	421,094
Cost of sales		<b>(317,106)</b>	(324,412)
<b>Gross profit</b>		<b>96,289</b>	96,682
Other income	8	<b>3,091</b>	2,876
Other gains and losses	9	<b>3,658</b>	3,963
Selling and distribution expenses		<b>(21,300)</b>	(16,601)
Administrative and other operating expenses		<b>(66,095)</b>	(46,532)
<b>Profit from operations</b>		<b>15,643</b>	40,388
Finance costs, net	10	<b>(1,903)</b>	(2,022)
<b>Profit before tax</b>		<b>13,740</b>	38,366
Income tax expenses	11	<b>(4,637)</b>	(7,341)
<b>Profit for the year</b>	12	<b>9,103</b>	31,025
Attributable to:			
Owners of the Company		<b>8,377</b>	30,420
Non-controlling interests ("NCI")		<b>726</b>	605
		<b>9,103</b>	31,025
<b>Earnings per share for profit attributable to owners of the Company</b>			
– Basic and diluted	16	<b>HK1.94 cents</b>	HK8.11 cents

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

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
<b>Profit for the year</b>	<b>9,103</b>	31,025
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<b>(1,669)</b>	(4,387)
Other comprehensive income for the year, net of tax	<b>(1,669)</b>	(4,387)
Total comprehensive income for the year	<b>7,434</b>	26,638
Attributable to:		
Owners of the Company	<b>6,708</b>	26,033
NCI	<b>726</b>	605
	<b>7,434</b>	26,638

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	17	36,053	41,378
Right-of-use assets	18	8,197	–
Deposits paid for property, plant and equipment	20	529	507
		<b>44,779</b>	41,885
<b>Current assets</b>			
Inventories	21	74,059	52,205
Trade receivables	22	90,266	91,038
Prepayments, deposits and other receivables	20	12,473	9,522
Pledged bank deposits	23	5,000	2,760
Bank and cash balances	23	83,713	17,872
		<b>265,511</b>	173,397
<b>Current liabilities</b>			
Trade payables	24	55,409	51,210
Other payables and accruals	24	17,174	15,862
Contract liabilities	24	3,744	3,009
Dividend payables		–	1,846
Lease liabilities	25	1,958	–
Finance lease payables	25	–	454
Bank borrowings	26	15,822	44,561
Current tax liabilities		3,965	682
		<b>98,072</b>	117,624
<b>Net current assets</b>		<b>167,439</b>	55,773
<b>Total assets less current liabilities</b>		<b>212,218</b>	97,658
<b>Non-current liabilities</b>			
Lease liabilities	25	3,711	–
Finance lease payables	25	–	96
Deferred tax liabilities	27	198	198

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Note</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
		<b>3,909</b>	294
<b>NET ASSETS</b>		<b>208,309</b>	97,364
<b>Capital and reserves</b>			
Share capital	28	<b>5,000</b>	1
Reserves	30	<b>202,008</b>	96,788
		<b>207,008</b>	96,789
NCI		<b>1,301</b>	575
<b>TOTAL EQUITY</b>		<b>208,309</b>	97,364

Approved by the Board of Directors on 23 March 2020 and are signed on its behalf by:

**Mr. Kwok Kwan Fai**  
*Executive Director*

**Mr. Kwok Kwan Yu**  
*Executive Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company						Total HK\$'000	NCI HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Statutory surplus reserve HK\$'000 (note 30(b)(i))	Foreign currency translation reserve HK\$'000 (note 30(b)(ii))	Other reserve HK\$'000 (note 30(b)(iii))	Share premium HK\$'000 (note 30(b)(iv))	Retained earnings HK\$'000			
At 1 January 2018	58,657	1,894	1,464	-	-	85,360	147,375	970	148,345
Issue of shares	12,001	-	-	-	-	-	12,001	-	12,001
Profit and total comprehensive income for the year	-	-	(4,387)	-	-	30,420	26,033	605	26,638
Arising from reorganisation	(70,657)	-	-	70,657	-	-	-	-	-
Transfer	-	139	-	-	-	(139)	-	-	-
Dividend paid (note 15)	-	-	-	-	-	(88,620)	(88,620)	(1,000)	(89,620)
At 31 December 2018 and 1 January 2019	1	2,033	(2,923)	70,657	-	27,021	96,789	575	97,364
Profit and total comprehensive income for the year	-	-	(1,669)	-	-	8,377	6,708	726	7,434
Transfer	-	678	-	-	-	(678)	-	-	-
Arising from reorganisation	(1)	-	-	1	-	-	-	-	-
Shares issued pursuant to the capitalisation issued (note 28(b))	3,750	-	-	-	(3,750)	-	-	-	-
Shares issued under the Share Offer (note 28(c))	1,250	-	-	-	102,261	-	103,511	-	103,511
At 31 December 2019	5,000	2,711	(4,592)	70,658	98,511	34,720	207,008	1,301	208,309



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax		13,740	38,366
Adjustments for:			
Reversal of allowance for inventories, net		–	(3)
Write off of trade and other receivables		428	–
Depreciation on property, plant and equipment	17	9,748	9,791
Depreciation on right-of-use assets	18	2,017	–
Net losses on disposal of property, plant and equipment	9	55	702
Finance income	10	(243)	(52)
Finance expenses	10	2,146	2,074
Operating profit before working capital changes		27,891	50,878
Decrease/(increase) in trade receivables		684	(11,410)
Increase in inventories		(23,119)	(9,714)
(Increase)/decrease in prepayments, deposits and other receivables		(3,439)	752
Increase/(decrease) in trade payables		5,100	(5,529)
Increase/(decrease) in other payables and accruals		1,537	(4,556)
Increase in contract liabilities		735	1,887
Cash generated from operations		9,389	22,308
Income taxes paid		(1,342)	(9,986)
Net cash generated from operating activities		8,047	12,322
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Deposits paid		(272)	(278)
Purchases of property, plant and equipment		(7,928)	(4,786)
Proceeds from disposals of property, plant and equipment		230	179
Interest received		243	36
Increase in amounts due from related companies		–	(1)
Increase in amount due from a director		(173)	(32,772)
Net cash used in investing activities		(7,900)	(37,622)

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	<i>Note</i>	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Finance expenses paid	33(b)	<b>(2,142)</b>	(2,074)
Principal elements of lease payments (2018: Repayment of finance lease payables)	33(b)	<b>(2,093)</b>	(888)
Proceeds from issue of shares		–	12,000
Proceeds from issue of ordinary shares under the Share Offer		<b>103,511</b>	–
Bank borrowings raised	33(b)	–	50,172
Repayment of bank borrowings	33(b)	<b>(28,739)</b>	(30,100)
Dividends paid	33(b)	<b>(1,670)</b>	(1,000)
Decrease in amount due to a director	33(b)	–	(146)
Decrease in amount due to a NCI shareholder	33(b)	–	(106)
Increase in pledged bank deposits		<b>(2,240)</b>	(2,760)
Net cash generated from financing activities		<b>66,627</b>	25,098
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>(933)</b>	(2,109)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>65,841</b>	(2,311)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>17,872</b>	20,183
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>83,713</b>	17,872
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Bank and cash balances	23	<b>83,713</b>	17,872

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. GENERAL INFORMATION

Kelfred Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 20 April 2018 as an exempted company with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Room 1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong.

On 16 July 2019 (the “Listing Date”), the Company’s shares were listed (the “Listing”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and issued a total of 125,000,000 Shares of the Company by way of share offer at a price of HK\$1 each upon Listing (the “Share Offer”).

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are principally engaged in manufacturing and sales in eyewear products (the “Business”). Details of the principal activities of its subsidiaries are set out on note 19 to the consolidated financial statements.

In the opinion of the directors of the Company, Conquer Holding Limited (“Conquer”), a company incorporated in the British Virgin Islands (“BVI”), are the immediate and ultimate parents, and Mr. Kwok Kwan Fai (“Mr. Joe Kwok”), Mr. Kwok Kwan Yu (“Mr. Ken Kwok”) and Ms. Chan Yin Wah (“Mrs. Kwok”) are the ultimate controlling parties of the Company.

The consolidated financial statements are presented in Hong Kong dollars (“HKD”) and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

## 2. GROUP REORGANISATION AND BASIS OF PREPARATION

### Group Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation for the purpose of Listing (the “Group Reorganisation”), the Business was carried out by companies now comprising the Group (collectively the “Operating Companies”). The Operating Companies were controlled by Mr. Joe Kwok, Mr. Ken Kwok and Mrs. Kwok respectively.

In the preparation for the Listing, the Group has undergone the Group Reorganisation, and the main steps of the Group Reorganisation are summarised below:

#### (i) Incorporation of Conquer

Conquer was incorporated in the BVI with limited liability on 10 November 2017 and was authorised to issue a maximum of 50,000 shares of US\$1 each, of which 5,000 shares of Conquer were allotted and issued as fully paid to each of Mr. Joe Kwok and Mr. Ken Kwok at par. Conquer was set up to be a corporate shareholder of the Company.

On 27 March 2018, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Mrs. Kwok (as purchaser), pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 100 shares of Conquer to Mrs. Kwok at the consideration of US\$1. Following completion of the above transfers of shares, Conquer was owned as to 2%, 49% and 49% by Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively.

#### (ii) Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 April 2018 with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. Upon its incorporation, one share was allotted and issued as fully paid to an independent initial subscriber at par. On the same date, such subscriber’s share was transferred to Conquer for cash at par and the said share transfer was properly and legally completed on the same date.

Upon completion of the above transfer and allotment and issue, Conquer became the shareholder of the Company.

## 2. GROUP REORGANISATION AND BASIS OF PREPARATION (Cont'd)

### Group Reorganisation (Cont'd)

#### (iii) Incorporation of Fame Investment Limited ("Fame Investment")

Fame Investment was incorporated in the BVI with limited liability on 10 April 2018. Upon its incorporation, it was authorised to issue up to a maximum of 50,000 ordinary shares of US\$1 each, of which 2, 49 and 49 shares were allotted and issued fully paid to Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok at par respectively on 10 April 2018.

#### (iv) Acquisition of Optical Farm HK Limited ("Optical Farm") by Fame Investment

Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser) on 15 May 2018, pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 10,000 shares of Optical Farm to Fame Investment at the consideration of HK\$1.

Upon completion of the above transfer, Optical Farm became a wholly-owned subsidiary by Fame Investment.

#### (v) Acquisition of Central Designs (Hong Kong) Limited ("Central Designs") by Fame Investment

Mr. Joe Kwok (as vendor) entered into a sale and purchase agreement with Fame Investment (as purchaser) on 15 May 2018, pursuant to which Mr. Joe Kwok transferred 120,000 shares of Central Designs, representing 50% of the issued share capital of Central Designs, to Fame Investment at the consideration of HK\$1.

Upon completion of the above transfer, Central Designs became a partially-owned subsidiary by Fame Investment.

#### (vi) Acquisition of Kelfred Optical Limited ("Kelfred Optical") by Fame Investment

Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into a sale and purchase agreement with Fame Investment (as purchaser) on 17 May 2018, pursuant to which Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok respectively transferred 60,000 shares, 1,470,000 shares and 1,470,000 shares of Kelfred Optical to Fame Investment at the respective consideration of HK\$2, HK\$49 and HK\$49.

Upon completion of the above transfer, Kelfred Optical became a wholly-owned subsidiary by Fame Investment.

#### (vii) Acquisition of Huaqing Glasses (Shenzhen) Company Limited ("Shenzhen Huaqing") and by Kelfred Optical

Mrs. Kwok (as vendor) entered into an equity transfer agreement with Kelfred Optical (as purchaser) on 26 June 2018 and a supplemental equity transfer agreement on 25 July 2018, pursuant to the two agreements Kelfred Optical acquired the entire equity interest in Shenzhen Huaqing from Mrs. Kwok at the consideration of HK\$22,095,000, and was satisfied by way of the issue and allotment of 100 shares of Kelfred Optical to Fame Investment, credited as fully paid in the capital of Kelfred Optical on 25 July 2018.

Upon completion of the above transfer and allotment and issue, Shenzhen Huaqing became a wholly-owned subsidiary by Kelfred Optical.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 2. GROUP REORGANISATION AND BASIS OF PREPARATION (Cont'd)

### Group Reorganisation (Cont'd)

(viii) *Acquisition of Jiangxi Huaqing Glasses Co., Limited ("Jiangxi Huaqing") and Yingtan Euro-Asia Enterprise Limited ("Yingtan Euro-Asia") by Kelfred Optical*

Mr. Joe Kwok and Mr. Ken Kwok (as vendors) entered into an equity transfer agreement with Kelfred Optical (as purchaser) on 3 July 2018, pursuant to which each of Mr. Joe Kwok and Mr. Ken Kwok transferred 50% equity interest in Jiangxi Huaqing and Yingtan Euro-Asia at nil consideration.

Upon completion of the above transfer, Jiangxi Huaqing and Yingtan Euro-Asia became wholly-owned subsidiaries by Kelfred Optical.

(ix) *Acquisition of Fame Investment by the Company*

The Company (as purchaser) entered into a sale and purchase agreement with Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok (as vendors) on 20 June 2019, pursuant to which the Company acquired from Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok 2, 49 and 49 shares of Fame Investment respectively in consideration of the Company in aggregate allotting and issuing 100 shares of the Company to Conquer, all credited as fully paid in the capital of the Company.

Upon completion of the above transfer and allotment and issue, Fame Investment became a wholly-owned subsidiary by the Company.

Upon completion of the Group Reorganisation, the Company became the holding company of the companies now comprising the Group and the Group Reorganisation has been legally and properly completed and settled on 20 June 2019.

### Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

### (a) Application of new and revised HKFRSs

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

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

#### *HKFRS 16 Leases*

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### (a) Application of new and revised HKFRSs (Cont'd)

#### *HKFRS 16 Leases (Cont'd)*

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

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

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

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

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

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

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.75%.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

### (a) Application of new and revised HKFRSs *(Cont'd)*

#### *HKFRS 16 Leases (Cont'd)*

### (b) Lessee accounting and transitional impact *(Cont'd)*

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

- (i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of properties was determined on a portfolio basis;
- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;
- (iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### (a) Application of new and revised HKFRSs (Cont'd)

#### HKFRS 16 Leases (Cont'd)

### (b) Lessee accounting and transitional impact (Cont'd)

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

	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	7,386
Less: commitments relating to lease exempt from capitalisation: – short-term leases and other leases with remaining lease term ending on or before 31 December 2019	<u>(191)</u>
	7,195
Less: total future interest expenses	<u>(889)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019	6,306
Add: finance lease liabilities recognised as at 31 December 2018	<u>550</u>
Lease liabilities recognised as at 1 January 2019	<u>6,856</u>
Of which are:	
Current lease liabilities	1,879
Non-current lease liabilities	<u>4,977</u>
	<u>6,856</u>

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

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance leases payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### (a) Application of new and revised HKFRSs (Cont'd)

#### HKFRS 16 Leases (Cont'd)

### (b) Lessee accounting and transitional impact (Cont'd)

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

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	Note	Effects of adoption of HKFRS 16			Carrying amount as at 1 January 2019 HK\$'000
		Carrying amount as at 31 December 2018 HK\$'000	Re-classification HK\$'000	Re-cognition of leases HK\$'000	
<b>Assets</b>					
Right-of-use assets		–	2,851	6,396	9,247
Property, plant and equipment	(i) & (ii)	41,378	(2,737)	–	38,641
Prepayments, deposits and other receivables	(iii)	9,522	(114)	–	9,408
<b>Liabilities</b>					
Lease liabilities		–	550	6,306	6,856
Finance lease payables	(iv)	550	(550)	–	–
Other payables and accruals	(v)	15,862	–	90	15,952

Note:

- (i) In relation to assets previously under finance leases, the Group re-categorises the carrying amount of the relevant assets which were still leased as at 1 January 2019 amounting to HK\$638,000 as right-of-use assets.
- (ii) Upfront payments for leasehold lands in the PRC own used lands were classified as land and buildings included in property, plant and equipment as at 31 December 2018. Upon application of HKFRS 16, the carrying amount of the leasehold land amounting to HK\$2,099,000 was classified to right-of-use assets.
- (iii) The Group reclassified the prepaid lease payments of HK\$114,000 as right-of-use assets at 1 January 2019.
- (iv) The Group reclassified the obligation under finance leases of HK\$454,000 and HK\$96,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.
- (v) Provisions for dismantling cost of HK\$90,000 were recognised at 1 January 2019.

### (c) Impact of the financial results and cash flows of the Group

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### (a) Application of new and revised HKFRSs (Cont'd)

#### HKFRS 16 Leases (Cont'd)

### (c) Impact of the financial results and cash flows of the Group (Cont'd)

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (note 33(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the consolidated statement of cash flows (note 33(c)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			2018	
	Amounts reported under HKFRS 16 HK\$'000	Add back: HKFRS 16 depreciation and interest expense HK\$'000	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
<b>Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:</b>					
<b>Profit from operations</b>	15,643	1,785	(1,959)	15,469	40,388
Finance costs, net	(1,903)	325	–	(1,578)	(2,022)
<b>Profit before tax</b>	13,740	2,110	(1,959)	13,891	38,366
<b>Profit for the year</b>	9,103	2,110	(1,959)	9,254	31,025

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### (a) Application of new and revised HKFRSs (Cont'd)

#### HKFRS 16 Leases (Cont'd)

### (c) Impact of the financial results and cash flows of the Group (Cont'd)

Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:	2019		2018	
	Amounts reported under HKFRS 16 HK\$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Cash generated from operations	9,389	(1,959)	7,430	22,308
<b>Net cash generated from operating activities</b>	<b>8,047</b>	<b>(1,959)</b>	<b>6,088</b>	<b>12,322</b>
Capital element of lease rentals paid	(2,093)	–	(493)	(888)
Interest element of lease rentals paid	(337)	–	(12)	(35)
<b>Net cash generated from financing activities</b>	<b>66,627</b>	<b>–</b>	<b>68,552</b>	<b>25,098</b>

*Note 1:* The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

*Note 2:* In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

### (b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### (a) Consolidation *(Cont'd)*

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary and any accumulated foreign currency translation reserve relating to that subsidiary.

Intra-group transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (b) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HKD, which is the Company's functional and presentation currency.

#### (ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (c) Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land (upon application of HKFRS 16 at 1 January 2019, the interest in leasehold land was reclassified to "Right-of-use assets", see note 3), held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis as follows:

Buildings (2018: land and buildings)	Over the term of lease
Leasehold improvements	3 to 5 years
Plant and machinery	5 years
Furniture and fixtures	5 years
Office equipment	2 to 5 years
Computer equipment	2 to 5 years
Motor vehicles	2 to 5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (d) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) *The Group as a lessee*

*Policy applicable from 1 January 2019*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (d) Leases (Cont'd)

#### (i) *The Group as a lessee (Cont'd)*

##### *Policy applicable from 1 January 2019 (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.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

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.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (d) Leases (Cont'd)

#### (i) *The Group as a lessee (Cont'd)*

*Policy prior to 1 January 2019*

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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

#### (ii) *The Group as a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (f) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4(r) and are reclassified to receivables when the right to the consideration has become unconditional.

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

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

### (g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 fair value through profit or loss are recognised immediately in profit or loss.

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 asset 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 recognises 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### (g) Recognition and derecognition of financial instruments *(Cont'd)*

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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### (h) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade 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 marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments held by the Group are classified at amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

### (i) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

### (j) Cash and cash equivalents

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### (i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### (ii) Trade and other payables

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

#### (iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (l) Revenue and other income

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

Revenue from the sale of eyewear is recognised at a point in time when control of the goods has transferred to customer upon delivery of eyewear products.

Product services fee income is recognised over time when the services are rendered.

Interest income is recognised as it accrues using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (m) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

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

#### (ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

#### (iii) Termination benefit

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

### (n) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

### (p) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items 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 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in a subsidiary, 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (p) Taxation (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of each 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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 for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 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.

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 by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (q) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (r) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and trade receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on this financial asset is estimated using a provision matrix 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (r) Impairment of financial assets (Cont'd)

#### *Significant increase in credit risk (Cont'd)*

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

- 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 for a particular financial instrument;
- 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;
- significant increases in credit risk on other financial instruments of the same debtor; and
- 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 on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) the financial instrument has a low risk of default,
- (ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (r) Impairment of financial assets (Cont'd)

#### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- 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 analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events 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:

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

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two 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. Any recoveries made are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (r) Impairment of financial assets (Cont'd)

#### *Measurement and recognition of ECL*

The measurement of expected credit losses 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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

### (s) Provisions and contingent liabilities

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

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

### (t) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) *Derecognition of financial assets – Receivable purchase arrangement*

The Group has entered into a receivable purchase arrangement with a bank on its trade receivables. As at 31 December 2019, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with certain trade receivables factored to the bank under the arrangement. Accordingly, the relevant trade receivables with an aggregate carrying amount of HK\$16,487,000 (2018: HK\$16,577,000) is fully derecognised. Further details are given in note 22 to the consolidated financial statements.

(b) *Consolidation of entity with 50% equity interest holding*

Although the Group owns 50% of the equity interest in Central Designs, it is able to gain power over more than 50% of the voting rights by virtue of shareholders agreement with Mr. Russell Dobney (“Mr. Russell”) who owns the remaining 50% equity interest in Central Designs. Fame Investment and Mr. Russell entered into a shareholders’ agreement pursuant to which Mr. Kwok Kwan Fai was appointed as the chairman of the board of directors and general meetings of Central Designs and is entitled to have a second or casting votes in the case of an equality of votes at a board meeting and/or general meetings of Central Designs. As such, the financial results of Central Designs will be consolidated into the consolidated financial statement of our Group as our Group is able to gain over than 50% of the voting rights in the board meetings and general meetings of Central Designs.

(c) *Determining the lease term*

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group’s operation.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 18 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group’s control. During the current financial year, no lease term has been reassessed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Cont'd)

### Key sources of estimation uncertainty

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, are discussed below.

#### (d) *Impairment of property, plant and equipment and right-of-use assets*

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amounts of property, plant and equipment and right-of-use assets as at 31 December 2019 were HK\$36,053,000 (2018: HK\$41,378,000) and HK\$8,197,000 (2018: nil) respectively.

#### (e) *Impairment of trade receivables*

The management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2019, the carrying amount of trade receivables was HK\$90,266,000 (2018: HK\$91,038,000).

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Cont'd)*

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

#### *(f) Write-down of inventories*

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as assets in the consolidated statement of financial position are set out in note 21 to the consolidated financial statements.

As at 31 December 2019, the carrying amount of inventories was HK\$74,059,000 (net of allowance for inventories of HK\$670,000) (2018: HK\$52,205,000).

#### *(g) Income taxes*

The Group is subject to income taxes in Hong Kong and the Mainland China. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During for the year, HK\$4,637,000 (2018: HK\$7,341,000) of income tax was charged to profit or loss based on the estimated profit.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HKD, RMB and USD. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group's foreign currency denominated financial assets and liabilities, translated into HKD at the prevailing closing rates at the end of the year, are as follows:

	Exposure to foreign currencies				Total HK\$'000
	HKD HK\$'000	RMB HK\$'000	USD HK\$'000	Others HK\$'000	
<b>At 31 December 2019</b>					
Financial assets	61,490	26,413	94,607	1,123	183,633
Financial liabilities	16,865	63,784	4,704	1,108	86,461
<b>At 31 December 2018</b>					
Financial assets	4,795	28,812	80,685	236	114,528
Financial liabilities	47,750	60,281	3,394	676	112,101

### Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained earnings in response to reasonably possible changes in the foreign exchange rates of RMB and USD to which the Group has significant exposure at the end of the year. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the year has been determined based on the change taking place at the beginning of the year and held constant throughout the year.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK\$'000	Effect on equity HK\$'000
<b>At 31 December 2019</b>			
RMB	2%	(536)	(780)
RMB	(2%)	536	780
USD	1%	750	— <sup>(i)</sup>
USD	(1%)	(750)	— <sup>(i)</sup>
<b>At 31 December 2018</b>			
RMB	4%	171	(1,098)
RMB	(4%)	(171)	1,098
USD	1%	645	—
USD	(1%)	(645)	—

<sup>(i)</sup> Represent amount less than HK\$1,000.

The sensitivity analysis of the Group's exposure to currency risk at the reporting date has been determined based on the hypothetical changes in foreign exchange rates which are commensurate with historical fluctuation during the year. The assumed changes represent directors' assessment of reasonably possible changes in foreign exchange rates over the period until the next reporting date.

## 6. FINANCIAL RISK MANAGEMENT *(Cont'd)*

### (b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

#### (i) *Credit risk of trade receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group's largest customer shared nearly 18.5% (2018: 19.3%) of the trade receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to the non-recovery of the receivables and there is no recent history of default for the Group's largest customer.

The Group also has policies in place to ensure that sales are made to customers with an appropriate credit history and has entered with Atradius Credito y Caucion SA de Seguros y Reaseguros ("Atradius") to insure against credit risk. Atradius is a credit insurer operating globally, offering companies solutions to protect them against the risk of financial default of their clients, both in their domestic and export market. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days to 120 days from the date of billing. Debtors with balances that are more than 2 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. FINANCIAL RISK MANAGEMENT (Cont'd)

### (b) Credit risk (Cont'd)

#### (i) Credit risk of trade receivables (Cont'd)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

#### As at 31 December 2019

	Ageing					Total
	Current	1 – 60 days	61-120 days	121-180 days	Over 180 days	
Expected credit loss rate	0.1359%	0.1754%	0.4201%	0.1058%	0.8462%	0.1709%
Gross carrying amount (HK\$'000)	71,427	9,771	8,250	206	612	90,266
Expected credit losses (HK\$'000)	97	17	35	– <sup>(*)</sup>	5	154

#### As at 31 December 2018

	Ageing					Total
	Current	1 – 60 days	61-120 days	121-180 days	Over 180 days	
Expected credit loss rate	0.0330%	0.0457%	0.3932%	2.3470%	3.2530%	0.1269%
Gross carrying amount (HK\$'000)	72,448	10,701	5,146	2,397	346	91,038
Expected credit losses (HK\$'000)	24	5	20	56	11	116

<sup>(\*)</sup> Represent the amount less than HK\$1,000.

The directors of the Company consider that the expected credit losses calculated above are insignificant. Therefore, there is no impairment loss recognised in accordance with HKFRS 9 for trade receivables for the years ended 31 December 2018 and 2019.

Expected credit loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

#### (ii) Credit risk of other receivables

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experiences and market information. The Group assessed that the expected credit losses for these receivables were not material under the 12-month expected losses method. In view of the history of cooperation with debtors and the collection history of the receivables, the management believe the credit risk inherent in the Group's outstanding other receivables balances is not significant.

#### (iii) Credit risk of pledged bank deposits and cash and bank balances

For pledged bank deposits and cash and bank balances, the Group has assessed that they are mainly placed with banks with high credit rating with no recent history of default in relation to these financial institutions and probability of defaults (of those banks) are low based on market information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. FINANCIAL RISK MANAGEMENT (Cont'd)

### (c) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for term loan which contains a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loan with immediate effect. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Maturity Analysis – undiscounted cash flows					Carrying amount HK\$'000
	Less than 1 year or on demand HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flow HK\$'000	
<b>At 31 December 2019</b>						
Trade payables	55,409	–	–	–	55,409	55,409
Other payables and accruals	17,174	–	–	–	17,174	17,174
Lease liabilities	2,205	3,916	–	–	6,121	5,669
Bank borrowings (note)	15,961	148	–	–	16,109	15,822
<b>At 31 December 2018</b>						
Trade payables	51,210	–	–	–	51,210	51,210
Other payables and accruals	15,862	–	–	–	15,862	15,862
Dividend payables	1,846	–	–	–	1,846	1,846
Finance lease payables	465	97	–	–	562	550
Bank borrowings (note)	23,987	17,156	3,605	1,630	46,378	44,561

Note:

Term loan with a repayment on demand clause is included in the "less than 1 year or on demand" time band in the above maturity analysis. As at 31 December 2019 and 31 December 2018, the aggregate undiscounted principal amount of this term loan amounted to HK\$15,822,000 and HK\$44,561,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors believe that such term loan will be repaid 2 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to HK\$16,109,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. FINANCIAL RISK MANAGEMENT (Cont'd)

### (d) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial liabilities, mainly borrowings which carried interest at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rate for borrowings at the end of the reporting period and assumed that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's consolidated profit after tax for the year ended 31 December 2019 would decrease/increase by HK\$113,000 (2018: HK\$325,000), arising mainly as a result of higher/lower interest expense on borrowings.

### (e) Categories of the Group's financial instruments at 31 December

	2019 HK\$'000	2018 HK\$'000
<b>Financial assets:</b>		
Financial assets at amortised cost	183,633	114,528
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost	86,461	112,101

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from sales of eyewear products recognised at a point in time during the year ended 31 December 2019.

### Segment information

The executive directors of the Company, being the chief operating decision makers, regularly review revenue analysis by customers and by locations. The executive directors of the Company considered the operating activities of designing, manufacturing and sales of eyewear products as a single operating segment. The operating segment has been identified on the basis of internal management reports prepared and is regularly reviewed by the executive directors of the Company. The executive directors of the Company review the overall results, assets and liabilities of the Group as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 7. REVENUE AND SEGMENT INFORMATION (Cont'd)

### Geographical information

Revenue from external customers, based on location of delivery to customers is as follows:

	2019 HK\$'000	2018 HK\$'000
<b>Revenue</b>		
Italy	124,252	95,748
United Kingdom	65,349	77,787
Netherlands	57,818	75,727
Hong Kong	43,413	41,246
France	20,790	20,636
Spain	28,526	16,156
Hungary	15,180	22,122
United States	14,408	20,577
Others	43,659	51,095
	<b>413,395</b>	421,094

An analysis of the Group's non-current assets by their physical geographical location is as follows:

	2019 HK\$'000	2018 HK\$'000
Hong Kong	2,324	2,151
PRC	41,926	39,227
	<b>44,250</b>	41,378

### Information about major customers

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

	2019 HK\$'000	2018 HK\$'000
Customer a	107,211	120,938
Customer b	80,724	59,850
Customer c	60,521	81,541
Customer d	48,993	47,425

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 8. OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Government grants	246	408
Income from sales of scrap and rework services	875	81
Product services fee income	1,421	1,886
Others	549	501
	<b>3,091</b>	2,876

The government grants were received with no condition attached by the Group's subsidiaries from the local government where they reside.

## 9. OTHER GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000
Exchange gain, net	3,713	4,665
Net losses on disposal of property, plant and equipment	(55)	(702)
	<b>3,658</b>	3,963

## 10. FINANCE COSTS, NET

	2019 HK\$'000	2018 HK\$'000
Finance income:		
Bank interest income	243	36
Interest income from a related company	–	16
	<b>243</b>	52
Finance expenses:		
Interest on bank borrowings	(1,099)	(1,460)
Interest on lease liabilities	(337)	–
Finance leases charges	–	(35)
Interest on factoring of trade receivables	(706)	(579)
Others	(4)	–
	<b>(2,146)</b>	(2,074)
Finance costs, net	<b>(1,903)</b>	(2,022)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 11. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as following:

	2019 HK\$'000	2018 HK\$'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	2,418	6,708
– Over provision in prior years	–	(28)
	<b>2,418</b>	6,680
PRC Enterprise Income Tax (“PRC EIT”)		
– Provision for the year	1,896	1,030
– Under/(over) provision in prior years	323	(369)
	<b>2,219</b>	661
	<b>4,637</b>	7,341

The Company was incorporated in the Cayman Islands and Fame Investment was incorporated in BVI that are tax exempted as no business carried in the Cayman Islands and the BVI under the tax laws of the Cayman Islands and the BVI.

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%.

Pursuant to the PRC EIT Law and the respective regulations, the subsidiaries which operate in the Mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group’s PRC subsidiary, Yingtan Euro-Asia, since it was qualified as a Small and Low-profit Enterprise for the years ended 31 December 2018 and 2019 and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2017] No. 43, Yingtan Euro-Asia was entitled to a further deduction of 50% of the tax income for the years ended 31 December 2018 and 2019. The Group’s another PRC subsidiary, Jiangxi Huaqing, was also qualified as an Advanced Technology Service Enterprise and was subject to income tax at a preferential tax rate of 15% for the year ended 31 December 2019.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before tax	13,740	38,366
Tax at Hong Kong Profits Tax rates	2,102	6,165
Tax effect of income that is not taxable	(495)	(245)
Tax effect of expenses that are not deductible	2,797	1,445
Tax effect of temporary differences not recognised	43	(22)
Tax effect of tax loss not recognised	–	66
Tax effect of utilisation of tax losses not previously recognised	(162)	–
Tax concession	(40)	(32)
Under/(over) provision in prior years	323	(397)
Effect of different tax rates of subsidiaries	69	361
Income tax expense	<b>4,637</b>	7,341



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration	1,119	241
Cost of inventories sold (*)	317,106	324,412
Reversal of allowance for inventories (included in cost of inventories sold), net	–	(3)
Write off of trade and other receivables	428	–
Depreciation on right-of-use assets	2,017	–
Depreciation on property, plant and equipment	9,748	9,791
Exchange gain, net	(3,713)	(4,665)
Listing expenses	13,183	7,120
Operating lease charges		
– Factories and staff quarters	121	1,896
– Office premises	210	420
– Directors' quarter	–	30
Net losses on disposal of property, plant and equipment	55	702

(\*) Cost of inventories sold includes HK\$77,068,000 and HK\$76,541,000 of staff costs, depreciation and operating lease charges which are also included in the respective total amounts disclosed above for each of these types of expenses for the years ended 31 December 2018 and 2019 respectively.

## 13. EMPLOYEE BENEFIT EXPENSES INCLUDING DIRECTORS' EMOLUMENTS

	2019 HK\$'000	2018 HK\$'000
Salaries, bonuses, allowances and benefits in kind	96,124	83,887
Retirement benefit scheme contributions	14,885	12,160
Quarters expense	–	30
	<b>111,009</b>	<b>96,077</b>

### (a) Retirement benefit schemes

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HKD1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. Each subsidiary is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of the subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 13. EMPLOYEE BENEFIT EXPENSES INCLUDING DIRECTORS' EMOLUMENTS (Cont'd)

### (b) Five highest paid individuals

The five highest paid individuals in the Group during for the year included 3 (2018: 2) director(s) whose emoluments are reflected in the analysis presented in note 14. The emoluments of the remaining 2 (2018: 3) individuals are set out below:

	2019 HK\$'000	2018 HK\$'000
Salaries, bonus and allowances	1,669	1,427
Retirement benefit scheme contributions	32	49
	<b>1,701</b>	<b>1,476</b>

The emoluments fell within the following band:

	Number of individuals Year ended 31 December	
	2019	2018
Nil to HK\$1,000,000	1	3
HK\$1,000,000 to HK\$1,500,000	1	–
	<b>2</b>	<b>3</b>

During for the year, no emoluments were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 14. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remuneration of every director is set out below:

	Fees HK\$'000	Salaries, bonus and allowances HK\$'000	Estimated money value of other benefits HK\$'000	Quarter expense HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
<b>Year ended 31 December 2019</b>						
Executive directors:						
Mr. Kwok Kwan Fai	-	2,444	-	-	18	2,462
Mr. Kwok Kwan Yu	-	2,444	-	-	18	2,462
	-	4,888	-	-	36	4,924
Non-executive directors:						
Ms. Chan Yin Wah	-	420	14	-	-	434
Mr. Kwok Mau Kwan	-	420	109	-	-	529
	-	840	123	-	-	963
Independent non-executive directors:						
Mr. Chan Hon Wah	-	83	-	-	-	83
Mr. Chu Kin Ming	-	83	-	-	-	83
Mr. Lee Wai Ming	-	83	-	-	-	83
	-	249	-	-	-	249
	-	5,977	123	-	36	6,136
<b>Year ended 31 December 2018</b>						
Executive directors:						
Mr. Kwok Kwan Fai	-	1,586	-	-	20	1,606
Mr. Kwok Kwan Yu	-	1,586	-	-	20	1,606
	-	3,172	-	-	40	3,212
Non-executive directors:						
Ms. Chan Yin Wah	-	390	-	30	-	420
Mr. Kwok Mau Kwan	-	325	-	-	-	325
	-	715	-	30	-	745
	-	3,887	-	30	40	3,957

## 14. BENEFITS AND INTERESTS OF DIRECTORS (Cont'd)

### (a) Directors' emoluments (Cont'd)

Note:

- (i) Mr. Kwok Kwan Fai was appointed as a director of the Company on 20 April 2018 and was re-designated as an executive director of the Company on 24 July 2018. He was also directors of Fame Investment, Kelfred, Optical Farm and Central Designs, respectively during the year and the Group paid emoluments to him in his capacity as the directors of these subsidiaries before his appointment as the executive director of the Company on 24 July 2018.
- (ii) Mr. Kwok Kwan Yu was appointed as a director of the Company on 20 April 2018 and was re-designated as an executive director of the Company on 24 July 2018. He was also directors of Fame Investment, Kelfred, Optical Farm, Yingtan Euro-Asia and Jiangxi Huaqing, respectively during the year and the Group paid emoluments to him in his capacity as the directors of these subsidiaries before his appointment as the executive director of the Company on 24 July 2018.
- (iii) Mr. Kwok Mau Kwan was appointed as non-executive director of the Company on 21 May 2018. He was also a director of Kelfred during the year and the Group paid emoluments to him in his capacity as the director of this subsidiary before his appointment as the non-executive director of the Company on 21 May 2018.
- (iv) Ms. Chan Yin Wah was appointed as non-executive director of the Company on 24 July 2018. She was also directors of Fame Investment, Kelfred and Shenzhen Huaqing, respectively during the year and the Group paid emoluments to her in her capacity as the directors of these subsidiaries before her appointment as the non-executive director of the Company on 24 July 2018.
- (v) Mr. Chan Hon Wah, Mr. Lee Wai Ming and Mr. Chu Kin Ming were appointed as independent non-executive directors of the Company on 22 June 2019.
- (vi) During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the year.

### (b) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors in favour of the directors as at the end of the year or at any time during the year.

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

Save as disclosed in note 34, there were no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 15. DIVIDENDS

The Company's subsidiaries made the following distributions to its then shareholders:

	2019		2018	
	Dividend per share HK\$	Total dividends HK\$'000	Dividend per share HK\$	Total dividends HK\$'000
<b>Dividends declared and paid/payable to its then shareholders by:</b>				
Kelfred	-	-	26.67	80,000
Central Designs	-	-	8.33	2,000
Shenzhen Huaqing	-	-	-	7,620
		-		89,620

A final dividend for the year ended 31 December 2019 of HK\$0.02 per share, amounting to a total dividend of HK\$10,000,000, is to be proposed at the forthcoming Annual General Meeting. The amount of 2019 proposed final dividend is based on 500,000,000 shares in issue as at 23 March 2020. These consolidated financial statements do not reflect this dividend payable.

## 16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2019 HK\$'000	2018 HK\$'000
<b>Earnings</b>		
Profit attributable to owners of the Company	8,377	30,420
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculation basis earning per share	432,877	375,000

The weighted average number of shares in issue during the year ended 31 December 2019 is based on the assumption that 375,000,000 shares of the Company were in issue, comprising 101 shares in issue and 374,999,899 shares issued pursuant to the capitalisation issue, as if these shares were outstanding throughout the period from 1 January 2019 to the Listing Date, and 125,000,000 shares issued under the Share Offer.

The weighted average number of shares in issue during the year ended 31 December 2018 is based on the assumption that 375,000,000 shares of the Company were in issue, comprising 101 shares in issue and 374,999,899 shares issued pursuant the capitalisation issue, and as if these shares were outstanding throughout that year.

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary share in issue during the years ended 31 December 2018 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 17. PROPERTY, PLANT AND EQUIPMENT

	Buildings (2018: Land and buildings) HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>								
At 1 January 2018	14,857	12,631	32,462	1,247	664	350	3,728	65,939
Additions	-	776	4,174	56	225	-	-	5,231
Disposals/write-off	-	-	(977)	-	-	(153)	-	(1,130)
Exchange differences	(743)	(624)	(1,731)	(65)	(37)	(5)	(51)	(3,256)
At 31 December 2018 and 1 January 2019	14,114	12,783	33,928	1,238	852	192	3,677	66,784
Reclassification due to adoption of HKFRS 16 (note 3)	(2,219)	-	-	-	-	-	(934)	(3,153)
Additions	-	973	5,469	129	1,597	-	-	8,168
Disposals/write-off	-	-	(744)	-	-	-	-	(744)
Exchange differences	(247)	(254)	(742)	(26)	(39)	-	(19)	(1,327)
At 31 December 2019	11,648	13,502	37,911	1,341	2,410	192	2,724	69,728
<b>Accumulated depreciation and impairment</b>								
At 1 January 2018	434	4,901	9,968	149	506	29	988	16,975
Charge for the year	365	2,214	6,136	224	148	26	678	9,791
Disposals/write-off	-	-	(250)	-	-	-	-	(250)
Exchange differences	(35)	(314)	(697)	(15)	(29)	(1)	(19)	(1,110)
At 31 December 2018 and 1 January 2019	764	6,801	15,157	358	625	54	1,647	25,406
Reclassification due to adoption of HKFRS 16 (note 3)	(120)	-	-	-	-	-	(296)	(416)
Charge for the year	296	1,846	6,401	236	433	37	499	9,748
Disposals/write-off	-	-	(458)	-	-	-	-	(458)
Exchange differences	(20)	(157)	(388)	(11)	(18)	-	(11)	(605)
At 31 December 2019	920	8,490	20,712	583	1,040	91	1,839	33,675
<b>Net book value</b>								
At 31 December 2019	10,728	5,012	17,199	758	1,370	101	885	36,053
At 31 December 2018	13,350	5,982	18,771	880	227	138	2,030	41,378

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 18. RIGHT-OF-USE ASSETS

	Leasehold land <i>HK\$'000</i>	Leased properties <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019 ( <i>note 3</i> )	2,099	6,510	638	9,247
Additions	–	1,073	–	1,073
Depreciation	(55)	(1,785)	(177)	(2,017)
Exchange differences	(31)	(75)	–	(106)
At 31 December 2019	2,013	5,723	461	8,197

	2019 <i>HK\$'000</i>
Depreciation expenses on right-of-use assets	2,017
Interest expense on lease liabilities (included in finance cost)	337
Expenses relating to short-term lease (included in cost of goods sold and administrative)	331

Details of total cash outflow for leases is set out in note 33(c).

For both years, the Group leases various factories and staff quarters, office premises and directors' quarter for its administration and operations. Lease contracts are entered into for fixed term of an average of 4 years (2018: 4), but may have extension options as described below. Certain leases of motor vehicles were accounted for as finance leases during the year ended 31 December 2018 and carried an average interest rate of 1.75% per annum. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised as at 31 December 2019 (discounted) <i>HK\$'000</i>	Potential future lease payments under extension options not included in lease liabilities (undiscounted) <i>HK\$'000</i>
Office premises – Hong Kong	828	1,390

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there has been no such triggering event.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 19. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal country of operation and place of incorporation/establishment, and kind of legal entity	Registered capital	Effective interests attributable to the Group	Principal activities
<b>Directly held by the Company</b>				
Fame Investment	British Virgin Islands ("BVI"), limited liability company	United States Dollar ("USD") 50,000	100%	Investment holding
Tech Glory Investment Holding Limited ("Tech Glory")	BVI, limited liability company	USD50,000	100%	Investment holding
<b>Indirectly held by the Company</b>				
Kelfred Optical	Hong Kong, limited liability company	HK\$25,095,000	100%	Investment holding and trading and design of eyewear products
Optical Farm	Hong Kong, limited liability company	HK\$20,000	100%	Sales of own-brand eyewear products
Central Designs	Hong Kong, limited liability company	HK\$240,000	50%	Trading of eyewear products
Shenzhen Huaqing 華清眼鏡(深圳)有限公司	The People's Republic of China ("PRC"), limited liability company	HK\$58,560,000	100%	Manufacturing of eyewear products
Yingtan Euro-Asia 鷹潭歐亞實業有限公司	PRC, limited liability company	USD2,000,000	100%	Properties holding
Jiangxi Huaqing 江西華清眼鏡有限公司	PRC, limited liability company	USD4,500,000	100%	Manufacturing of eyewear products
Qinxiang Camellia Technology Hong Kong Co., Limited	Hong Kong, limited liability company	HK\$1	100%	Dormant

Except for Fame Investment and Tech Glory which are directly held by the Company, all subsidiaries are indirectly held by the Company.

Although the Group owns 50% of the equity interest in Central Designs, it is able to gain power over more than 50% of the voting rights by virtue of an agreement with Mr. Russell. Consequently, the Group consolidates Central Designs.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 19. INVESTMENTS IN SUBSIDIARIES (Cont'd)

The following table shows information on the subsidiary that has NCI material to the Group. The summarised historical financial information represents amounts before inter-company eliminations.

Name	Central Designs	
	2019	2018
Principal place of business/country of incorporation	Hong Kong	Hong Kong
% of ownership interests/voting rights held by NCI	50%/50%	50%/50%
	HK\$'000	HK\$'000
Current assets	6,035	4,398
Current liabilities	(3,434)	(3,248)
Net assets	2,601	1,150
Accumulated NCI	1,301	575
	Year ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
Revenue	12,134	9,374
Profit for the year	1,452	1,210
Total comprehensive income for the year	1,452	1,210
Profit allocated to NCI	726	605
Dividends paid to NCI	–	1,000
Net cash generated from operating activities	1,606	2,481
Net cash generated from investing activities	– <sup>(i)</sup>	– <sup>(i)</sup>
Net cash used in financing activities	(1,000)	(1,500)
Net increase in cash and cash equivalents	606	981

<sup>(i)</sup> Represent the amount less than HK\$1,000.

As at 31 December 2019, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to HK\$2,577,000 (2018: HK\$6,320,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
<b>Prepayments</b>		
Listing expenses	–	2,006
Administrative and operating expenses	591	401
Selling and distribution expenses	254	–
	<b>845</b>	2,407
<b>Deposits</b>		
Deposits paid for property, plant and equipment	529	507
Customs deposits	–	467
Rental deposits	307	304
Trade deposits	4,058	1,616
Utility deposits	30	31
	<b>4,924</b>	2,925
<b>Other receivables</b>		
Advances to staff	14	184
Rebates from suppliers	2,241	2,030
Export tax refundable	2,440	1,656
VAT receivables	476	518
Others	2,062	309
	<b>7,233</b>	4,697
	<b>13,002</b>	10,029
Non-current portion	529	507
Current portion	12,473	9,522
	<b>13,002</b>	10,029

## 21. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	17,201	11,011
Work in progress	39,286	27,788
Finished goods	13,468	9,292
Goods-in-transit	4,104	4,114
	<b>74,059</b>	52,205

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 22. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	90,266	91,038

The Group's credit terms generally range from 30 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance or cash on delivery is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The Group has entered into receivable purchase agreements with a bank for the factoring of trade receivables with certain designated customers. As at 31 December 2019, trade receivables factored to the bank aggregated to HK\$16,487,000 (2018: HK\$16,577,000) and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to the bank.

The aging analysis of trade receivables, based on the delivery date, and net of allowance for doubtful debts, is as follows:

	2019 HK\$'000	2018 HK\$'000
Up to 60 days	64,788	65,000
61 to 120 days	12,057	16,655
121 to 180 days	8,981	6,526
Over 180 days	4,440	2,857
	90,266	91,038

The Group does not hold any collateral as security or other credit enhancements over these balances.

The Group applied simplified approach to provide the ECL prescribed by HKFRS 9. The impairment methodology is set out in note 4 to the consolidated financial statements.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Based on the judgement of management of the Group, the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix is negligible at 31 December 2019.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The directors of the Company considered that the ECL allowance is immaterial as disclosed in note 6(b)(i) to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 22. TRADE RECEIVABLES (Cont'd)

Movements in the loss allowance for trade receivables are as follows:

	2019 HK\$'000	2018 HK\$'000
At the beginning of the year	–	421
Amounts written off	–	(421)
At the end of the year	–	–

As at 31 December 2019, trade receivables of HK\$18,839,000 (2018: HK\$18,590,000) were past due but not impaired. These relate to trade receivables from a number of independent customers of whom there is no recent history of default. The ageing analysis of the past due but not impaired trade receivables, based on past due dates, is as follows:

	2019 HK\$'000	2018 HK\$'000
Up to 60 days	9,771	10,701
61 to 120 days	8,250	5,146
121 to 180 days	206	2,397
Over 180 days	612	346
	<b>18,839</b>	18,590

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
EUR	996	210
RMB	19,682	19,536
USD	69,588	71,292
	<b>90,266</b>	91,038

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 23. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to a bank to secure banking facilities granted to the Group as mentioned in note 26 to the consolidated financial statements.

The carrying amounts of the Group's pledged bank deposits and bank and cash balances are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
HKD	61,395	4,703
RMB	4,343	6,510
USD	22,849	9,394
Others	126	25
	<b>88,713</b>	20,632

As at 31 December 2019, the bank and cash balances of the Group denominated in RMB amounted to HK\$4,343,000 (2018: HK\$6,510,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 24. TRADE AND OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Trade payables	55,409	51,210
Other payables and accruals		
Accrued staff costs	7,725	7,497
Accrued administrative and operating expenses	3,470	3,542
Purchases of property, plant and equipment	1,382	1,613
Accrued sales rebate to customers	2,559	1,832
Accrued various tax expenses	1,114	474
VAT payables	830	904
Others	94	–
	<b>17,174</b>	15,862
Contract liabilities	3,744	3,009
	<b>76,327</b>	70,081

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 24. TRADE AND OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES (Cont'd)

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2019 HK\$'000	2018 HK\$'000
Up to 60 days	43,841	42,194
61 to 90 days	8,464	7,162
91 to 180 days	1,484	1,416
Over 180 days	1,620	438
	<b>55,409</b>	51,210

The credit period ranges from 30 to 90 days.

There were no significant changes in the contract liabilities balances during the reporting period.

Contract liabilities represent receipt in advance from customers and the movement during the year is as below:

	2019 HK\$'000	2018 HK\$'000
Balance at 1 January	3,009	1,122
Decrease in contract liabilities as a result of recognising revenue	(2,874)	(1,112)
Increase in contract liabilities as a result of billing in advance of sales of goods	3,609	3,009
Balance at 31 December	<b>3,744</b>	3,009

The carrying amounts of the Group's trade and other payables, accruals and contracts liabilities are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
HKD	1,043	2,017
RMB	65,728	60,994
USD	8,415	6,394
Others	1,141	676
	<b>76,327</b>	70,081

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 25. LEASE LIABILITIES (2018: FINANCE LEASE PAYABLES)

	Minimum lease payments		Present value of minimum lease payments	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Within one year	2,205	465	1,958	454
In the second to fifth years, inclusive	3,916	97	3,711	96
	6,121	562	5,669	550
Less: Future finance charges	(452)	(12)	N/A	N/A
Present value of lease obligations	5,669	550	5,669	550
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1,958)	(454)
Amount due for settlement after 12 months			3,711	96

It is the Group's policy to lease certain of its motor vehicles. The lease term is ranged from 3 to 5 years. As at 31 December 2019, the average flat rate was 1.59% (2018: 1.75%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicles and office equipment at nominal prices.

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances 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. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

The carrying amounts of the Group's lease liabilities (2018: finance lease payables) are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
HKD	884	550
RMB	4,785	–
	5,669	550

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 26. BANK BORROWINGS

	2019 HK\$'000	2018 HK\$'000
<b>Term loans</b>	<b>15,822</b>	44,561
The bank borrowings are repayable as follows*:		
Within one year	15,675	22,860
More than one year, but not exceeding two years	147	16,730
More than two years, but not exceeding five years	–	3,371
More than five years	–	1,600
	<b>15,822</b>	44,561
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(15,675)</b>	(22,860)
Portion of bank loan that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	<b>147</b>	21,701

\* The amounts due are based on scheduled repayment date set out in the loan agreements.

Note:

- (i) The carrying amounts of the Group's bank borrowings are denominated in HKD and were secured by corporate guarantee executed by the Company and the Group's bank fixed deposit of HK\$5,000,000 (2018: HK\$2,760,000) as mentioned in note 23 to the consolidated financial statements.
- (ii) As at 31 December 2019, the ranges of effective interest rates per annum on the Group's bank borrowings were 1.16% to 5.50% (2018: 2.21% to 5.50%).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 27. DEFERRED TAX LIABILITIES

	<b>Property, plant and equipment</b> <i>HK\$'000</i>
At 1 January 2018, 31 December 2018 and 1 January 2019 and 31 December 2019	198

As at 31 December 2019, subsidiaries incorporated in Hong Kong have unused tax losses of HK\$381,000 (2018: HK\$1,360,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

The Group's subsidiaries that are PRC tax resident are required to withhold the PRC withholding tax of 10% on the dividend payment to their non-PRC resident immediately holding company, registered in Hong Kong, when and if undistributed earnings are declared to be paid as dividends out of profits unless such dividend payment is qualified for the 5% reduced tax rate under the Arrangement between Mainland China and Hong Kong for the Avoidance of Double taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("PRC-HK DTA").

In the opinion of the Company's PRC legal advisor, pursuant to PRC-HK DTA, Kelfred was managed and controlled in Hong Kong and is qualified as a Hong Kong tax resident. Therefore, subject to the approval on the application of the Hong Kong resident certificate, it should be qualified to enjoy a reduced withholding tax rate of 5% on dividend distributed by those subsidiaries incorporated in the PRC.

As at 31 December 2019, no deferred tax has been recognised for withholding tax that would be payable on the undistributed earnings that are subject to withholding tax of the Group's subsidiaries incorporated in the PRC. In the opinion of the directors, the Group's fund will be retained in the Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 28. SHARE CAPITAL

	<i>Note</i>	Number of shares	Amount <i>HK\$</i>
<b>Authorised:</b>			
Ordinary shares of HK\$0.01 each			
Upon incorporation on 20 April 2018,			
31 December 2018 and 1 January 2019	2(ii)	39,000,000	390,000
Increase in authorised share capital	(a)	1,961,000,000	19,610,000
At 31 December 2019		2,000,000,000	20,000,000
<b>Issued and fully paid:</b>			
Ordinary shares of HK\$0.01 each			
Upon incorporation on 20 April 2018,			
31 December 2018 and 1 January 2019	2(ii)	1	— <sup>(i)</sup>
Shares issued upon acquisition of Fame Investment	2(ix)	100	1
Shares issued pursuant to the capitalisation issue	(b)	374,999,899	3,749,999
Shares issued under the Share Offer	(c)	125,000,000	1,250,000
At 31 December 2019		500,000,000	5,000,000

<sup>(i)</sup> Represent the share capital of HK\$0.01.

*Note:*

- (a) Pursuant to the written resolutions of the shareholders of the Company (the "Shareholders") passed on 22 June 2019, the authorised share capital of the Company increased from HK\$390,000 to HK\$20,000,000 by creation of an additional of 1,961,000,000 shares of HK\$0.01 each.
- (b) Pursuant to the written resolutions passed by the Shareholders on 22 June 2019, conditional on share premium account of the Company being credited as a result of the Share Offer, the directors were authorised to capitalise an amount of HK\$3,749,999 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 374,999,899 shares for allotment and issue to the then existing Shareholders in proportion to their respective shareholdings.
- (c) On the Listing Date, the Company issued 125,000,000 new shares at HK\$1.00 each in relation to the Share Offer. The premium on the issue of shares, amounting to HK\$102,260,806, net of listing-related expenses, was credited to the Company's share premium account. These new shares rank *pari passu* with the existing shares in all respects.

For the purpose of the preparation of the consolidated statement of financial position, the balance of share capital as at 31 December 2018 represents the aggregate of the paid up share capital of the Company and Fame Investment held by the controlling shareholders of the Company prior to the Reorganisation.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 28. SHARE CAPITAL (Cont'd)

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising lease liabilities and borrowings) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios as at 31 December 2019 was 10.3% (2018: 46.3%). The decrease in the gearing ratio of the Group is primarily due to the decrease in the balance of bank borrowings as at 31 December 2019.

The only externally imposed capital requirement for the Group is in order to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required by the Listing Rules. As at 31 December 2019, 25% of the shares were in public hands.

## 29. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Investment in a subsidiary		— <sup>(i)</sup>	—
<b>Current assets</b>			
Amount due from a subsidiary		48,513	—
Amount due from ultimate parent		— <sup>(ii)</sup>	— <sup>(ii)</sup>
Prepayments and other receivables		252	—
Bank and cash balances		51,749	—
		<b>100,514</b>	— <sup>(ii)</sup>
<b>Net current assets</b>		<b>100,514</b>	— <sup>(ii)</sup>
<b>NET ASSETS</b>		<b>100,514</b>	— <sup>(ii)</sup>
<b>Capital and reserves</b>			
Share capital	28	5,000	— <sup>(ii)</sup>
Reserves	29(b)	95,514	—
<b>TOTAL EQUITY</b>		<b>100,514</b>	— <sup>(ii)</sup>

(i) Represent the investment in a subsidiary of HK\$1.

(ii) Represent the share capital and amount due from ultimate parent of HK\$0.01.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Cont'd)

### (b) Reserve movement of the Company

	Share premium <i>(note 30(b)(iv))</i> HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
On incorporation	–	–	–
Total comprehensive income for the year	–	–	–
At 31 December 2018 and 1 January 2019	–	–	–
Total comprehensive income for the year	–	(2,997)	(2,997)
Shares issued pursuant to the capitalisation issue <i>(note 28(b))</i>	(3,750)	–	(3,750)
Shares issued under the Share Offer <i>(note 28(c))</i>	102,261	–	102,261
At 31 December 2019	98,511	(2,997)	95,514

Approved by the Board of Directors on 23 March 2020 and are signed on its behalf by:

**Mr. Kwok Kwan Fai**  
Executive Director

**Mr. Kwok Kwan Yu**  
Executive Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Nature and purpose of reserves

#### (i) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of those group companies incorporated in the PRC, the group companies are required to appropriate 10% of their profits after tax, as determined in accordance with Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises and other regulations applicable to group companies, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the group companies. The appropriation to the reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the group companies' capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the capital of the group companies.

#### (ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(b) to the consolidated financial statements.

#### (iii) Other reserve

The other reserve of the Group represents the difference between the nominal value of shares of Kelfred, Optical Farm, Central Designs, Shenzhen Huaqing, Jiangxi Huaqing and Yingtan Euro-Asia acquired pursuant to the Group Reorganisation over the nominal value of the share capital of Fame Investment issued in exchange therefor.

#### (iv) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 31. OPERATING LEASE ARRANGEMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK\$'000
Within one year	1,927
In the second to fifth years inclusive	5,459
After five years	–
	7,386

Operating lease payments represent rentals payable by the Group for its offices. Leases are negotiated for an average term of 4 years and rentals are fixed over the lease terms and do not include contingent rentals.

## 32. CAPITAL COMMITMENTS

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

	2019 HK\$'000	2018 HK\$'000
Property, plant and equipment	586	604

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transaction

- (i) Property, plant and equipment of HK\$240,000 (2018: HK\$445,000) were reclassified from deposits paid for property, plant and equipment during the year ended 31 December 2019.
- (ii) Dividend payables of HK\$179,000 were offset by the amounts due from directors of HK\$179,000 during the year ended 31 December 2019.

### (b) 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 statements of cash flows as cash flows from financing activities.

	Non-cash changes								As at 31 December 2019 HK\$'000
	As at 1 January 2019 HK\$'000	Impact on initial application of HKFRS16 (note 3) HK\$'000	Restated balance at 1 January HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Additions of lease liabilities HK\$'000	Foreign exchange movement HK\$'000	Offsetting HK\$'000	
	Finance lease payables (note 25)	550	(550)	-	-	-	-	-	
Lease liabilities (note 25)	-	6,856	6,856	(2,430)	337	1,036	(130)	-	5,669
Bank borrowings (note 26)	44,561	-	44,561	(30,544)	1,805	-	-	-	15,822
Dividend payables	1,846	-	1,846	(1,670)	-	-	3	(179)	-
	46,957	6,306	53,263	(34,644)	2,142	1,036	(127)	(179)	21,491

	Non-cash changes							As at 31 December 2018 HK\$'000
	As at 1 January 2018 HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Dividends declared HK\$'000 (note 15)	Foreign exchange movement HK\$'000	Offsetting HK\$'000		
	Amount due to a director	147	(146)	-	-	6	(7)	
Amount due to a NCI shareholder	106	(106)	-	-	-	-	-	
Finance lease payables (note 25)	1,438	(923)	35	-	-	-	550	
Bank borrowings (note 26)	24,678	17,844	2,039	-	-	-	44,561	
Dividend payables	-	(1,000)	-	89,620	(151)	(86,623)	1,846	
	26,369	15,669	2,074	89,620	(145)	(86,630)	46,957	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

### (c) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

	2019 HK\$'000	2018 HK\$'000
Within operating cash flows	331	2,346
Within financing cash flows	2,430	923
	<b>2,761</b>	3,269

These amounts relate to the following:

	2019 HK\$'000	2018 HK\$'000
Lease rental paid	331	2,346
Principal elements of lease payments	2,093	888
Interest of lease payments	337	35
	<b>2,761</b>	3,269

## 34. RELATED PARTY TRANSACTIONS

- (a) In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions.

	Note	2019 HK\$'000	2018 HK\$'000
Consultancy fee to Mr. Russell	(i)	331	347
Office's rental expense to Ms. Lee Man Yee	(ii)	–	420
Office's rental paid for lease liabilities to Ms. Lee Man Yee	(ii)	442	–

Note:

- (i) Mr. Russell is the NCI of Central Designs and the consultancy fee was paid at terms mutually agreed with the relevant parties involved.
- (ii) Ms. Lee Man Yee is wife of Mr. Kwok Kwan Fai.
- (b) Key management personnel remuneration is disclosed in notes 13 to 14.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 35. EVENT AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.