MATRIX

Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005

Annual Report 2019

Our Mission

- **Enhance customer satisfaction** through delivery of high quality products that meet **world safety standard**

- Be **environmentally responsible** in all its manufacturing processes through **recycling** and **adherence** to international environmental protection laws

- Be a **socially responsible employer** by providing **safe and pleasant** working environment to workers

- Optimise shareholders' return by pursuing **business growth, diversification** and **productivity enhancement**

Content

Corporate Profile

Danang City, Vietnam
First Plant

Danang City, Vietnam
Second Plant

MATRIX is a well-established manufacturer of plastic, die-cast and plush toys, with vertically integrated production process including mould making, manufacturing and design and a manufacturer of lighting products. Currently, the Group operates four plants in Vietnam. As at 31st December, 2019, the Group employed approximately 7,700 staff in Hong Kong, Macau, the PRC, Vietnam, Australia, the United States of America, Canada, Taiwan, Mexico and Europe. The well-established toy companies in designing, manufacturing and selling plastic toys – The Shelcore and the Funrise Group, and two overseas lighting companies were merged into the Group in 2005, 2007 and 2017 respectively.

Danang City, Vietnam
Third Plant

Vinh City, Vietnam
Fourth Plant

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Cheng King Cheung
Tsang Chung Wa
Tse Kam Wah
Yu Sui Chuen
Yip Hiu Har

Independent Non-executive Directors

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Loke Yu alias Loke Hoi Lam *(Chairman)*
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

NOMINATION COMMITTEE

Cheng Yung Pun *(Chairman)*
Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

COMPANY SECRETARY

Lai Mei Fong

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Admiralty Hong Kong

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

SHARE REGISTRAR

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

BRANCH SHARE REGISTRAR IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS

Suite Nos. 223-231
2nd Floor, Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/matrix/index.htm

STOCK CODE

1005 (Main Board of The Stock Exchange of Hong Kong Limited)

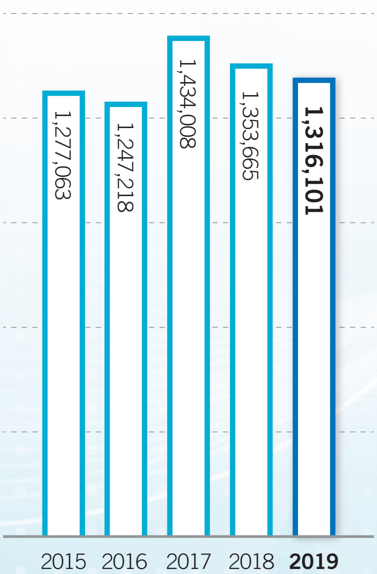
Financial Highlights

Financial Highlights and Key Ratios as of the Year Ended 31st December:

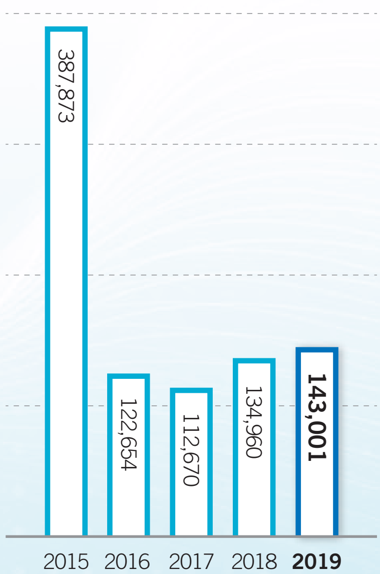
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2019**	2018	% Change
Revenue	**1,316,101**	1,353,665	–2.8%
Gross profit	**468,505**	465,788	0.6%
Profit for the year attributable to owners of the Company	**143,001**	134,960	6.0%
Earnings per share – Basic	**HK19 cents**	HK18 cents	5.6%
Dividend per share			
Interim, paid	**HK5.5 cents**	HK5 cents	10.0%
Final, proposed	**HK3 cents**	HK5 cents	–40.0%
Gross Profit Margin (%)	**35.6**	34.4	3.5%
Net Profit Margin (%)	**10.9**	10.0	9.0%
Gearing Ratio (%)	**2.0**	27.0	–92.6%
Current Ratio	**3.6**	2.0	80.0%
Quick Ratio	**2.3**	1.3	–76.9%

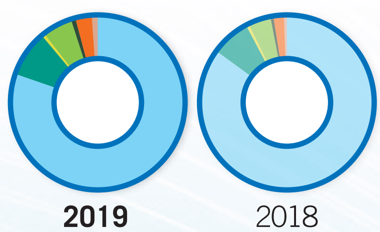
REVENUE



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

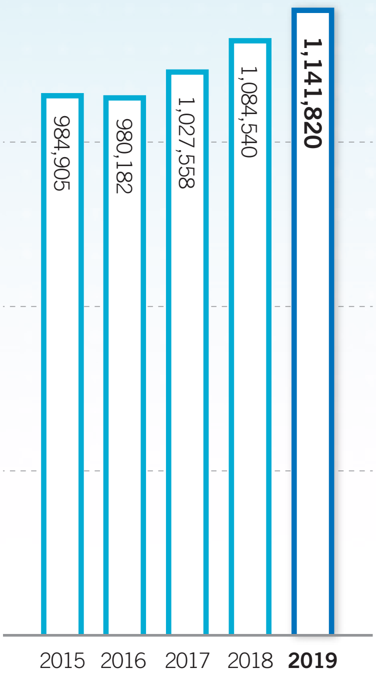


REVENUE BREAKDOWN BY MARKET

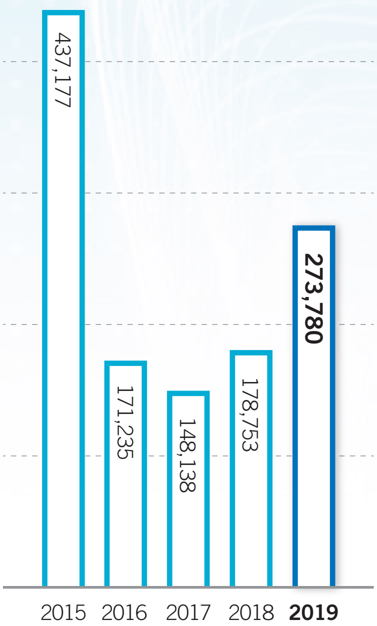


	2019	2018
United States	**80.3%**	85.1%
Europe	**8.6%**	7.3%
Mexico	**0.8%**	0.4%
Canada	**5.3%**	4.2%
South America	**1.1%**	0.6%
Australia and New Zealand	**2.9%**	1.9%
Others	**1.0%**	0.5%

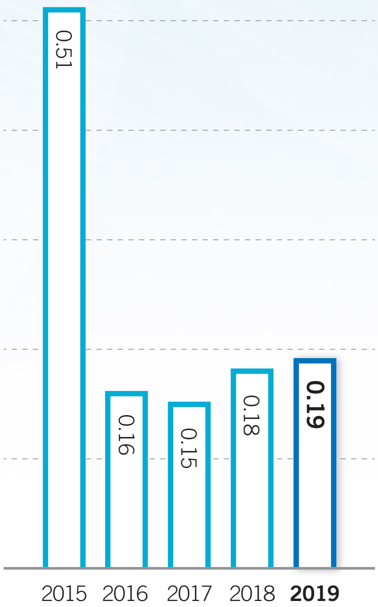
NET ASSETS



EBITDA



BASIC EARNINGS PER SHARE



DEFINITIONS

Gross Profit Margin (%)	=	Gross Profit / Revenue	x 100%
Net Profit Margin (%)	=	Profit for the year attributable to owners of the Company / Revenue	x 100%
Gearing Ratio (%)	=	Total Debt / Total Equity	x 100%
Current Ratio	=	Current Assets / Current Liabilities	
Quick Ratio	=	Current Assets excluding Inventories / Current Liabilities	

Chairman's Statement

To Our Shareholders,

I am pleased to present to our shareholders the annual report of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31st December, 2019.

For the year of 2019 (the "year"), the Group's consolidated revenue slightly decreased by approximately HK$37,564,000 or 2.8 % to approximately HK$1,316,101,000 from approximately HK$1,353,665,000 of last year. The profit attributable to the owners of the Company increased by approximately HK$8,041,000 or 6.0% to approximately HK$143,001,000 from approximately HK$134,960,000 of last year.

The strengthening and continued recovery of the North American market had a positive impact to the sales of our Original Design Manufacturing (ODM) business and Original Brand Manufacturing (OBM) business. The toy series developed and launched under the newly licensed brand of "CAT" received good market feedback from existing customers, and has started to contribute to revenue for the year. The Group has gained continued support from the mass-market toy retailers, as demonstrated in strong orders received for its OBM business and ODM business. The Group has gained wide recognition from large toy companies for its product quality and manufacturing capabilities, driving the revenue contribution of its ODM business and OBM business which recorded continued increase in revenue. Comparing with last year, due a decline in sales of the OEM business, the Group's overall revenue recorded a slight decrease.

Despite an increase in distribution and selling costs due to increased royalty-related expenses and advertising and promotion costs, the Group recorded a decrease in raw material costs and wages expense. In addition, thanks to the loan agreement entered into in 2018, pursuant to which the lenders had exercised the option to obtain the right to purchase certain residential properties located in the PRC (the "Right to Purchase"), the transfer of the Right to Purchase brought a one-off gain to the Group. Overall, the profit attributable to the owners of the Company increased by approximately HK$8,041,000 or 6.0% to approximately HK$143,001,000 for the year from approximately HK$134,960,000 for last year.

The Group has been continuing to review the development of its existing businesses from time to time, with a view to consolidating its long-term profitability. Meanwhile, it also strives to pursue other investment opportunities with earning potential, and actively explore good merger and acquisition opportunities to acquire new business or asset that will bring synergistic effects and new income streams to the Group. Currently, the Group had acquired the land use rights of five parcels of lands located at Da Nang City of Vietnam and intends to develop these lands for property investment purpose.

Looking forward, the Company will, leveraging on the development of its core businesses, endeavour to expand production capacity and reduce labour costs through further optimising productivity of its machines while maintaining a sound financial position, so as to continuously strive for better return for our shareholders.

Lastly, I would like to express my sincere appreciation to all of our stakeholders, including shareholders, customers, business partners and suppliers, for their continuous support and trust in all aspects of the Group's activities. I would also like to express my gratitude to the management and the entire staff for their indispensable and enthusiastic contribution and commitment to the Group.

Cheng Yung Pun
Chairman
Hong Kong, 8th April, 2020

Management Discussion and Analysis

RESULTS

During the year of 2019 (the "year"), the Group's consolidated revenue reported approximately HK$1,316,101,000, decreased by approximately HK$37,564,000 or 2.8% as compared to approximately HK$1,353,665,000 of 2018 ("last year"). The profit attributable to the owners of the Company increased by approximately HK$8,041,000 or 6.0% to approximately HK$143,001,000 from approximately HK$134,960,000 of last year.

DIVIDEND

During the year, the Company paid an interim dividend of HK5.5 cents (2018: HK5 cents) in cash per share to the shareholders. The Directors have resolved to recommend the payment of a final dividend of HK3 cents (2018: HK5 cents) in cash per share for the year ended 31st December, 2019, payable to shareholders whose names appear on the Register of Members of the Company on 4th June, 2020. Together with the interim dividend paid of HK5.5 cents per share, the total dividend per share for the year is HK8.5 cents (2018: HK10 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 12th June, 2020 in cash.

FINANCIAL REVIEW

Revenue

Revenue of the year recorded approximately HK$1,316,101,000, decreased by approximately 2.8% from last year.

Gross profit

The Group's gross profit for the year increased by approximately 0.6% to approximately HK$468,505,000 as a result of improved control over overall production costs.

Distribution and selling costs

Distribution and selling costs increased by approximately 31.2% to approximately HK$200,722,000 for the year. The increase was mainly attributable to the increase in advertising and royalty-related expenses for toys products during the year.

Administrative expenses

Administrative expenses of the year increased by approximately 23.2% to approximately HK$183,550,000, which mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The increase resulted mainly from increase in professional fees and general office expenses during the year.

Finance costs and income tax

Finance costs of the year decreased by approximately 31.2% to approximately HK$5,868,000 as compared to last year due to decrease in the loan from third parties. Income tax expense of this year recorded approximately HK$7,828,000 as compared to income tax credit of approximately HK$1,874,000 of last year due to the decrease in deferred tax assets.

Research and development cost

Research and development (R&D) cost increased by approximately 11.3% to approximately HK$26,676,000 for the year as more resources were allocated to conduct R&D for toys product during the year.

Trade and other receivables and prepayments

Trade and other receivables and prepayments of the year increased by approximately 24.2% to approximately HK$374,699,000 as compared to last year, mainly due to our product mix of terms of credit.

Trade and other payables and accruals

Trade and other payables and accruals of the year decreased by approximately 3.7% to approximately HK$165,579,000 as compared to last year, mainly due to the decrease in purchases and other payables and accruals.

Quick Ratio

The quick ratio of the year was higher than last year which resulted mainly from the settlement of the loan from the third parties during the year.

Current Ratio

The current ratio of the year was higher than last year which resulted mainly from the settlement of the loan from the third parties during the year.

Financial position and cash flows review

The Group's cash flow position remained healthy and the bank borrowing was maintained at a minimum level.

Liquidity and Financial Resources

As at 31st December, 2019, the Group had cash and cash equivalents of approximately HK$133,832,000 (2018: HK$294,066,000). As at 31st December, 2019, the Group obtained banking facilities in a total of approximately HK$70,000,000 (2018: HK$121,180,000) of which was supported by corporate guarantee.

As at 31st December, 2019, the Group had bank borrowings of approximately HK$23,030,000 (2018: HK$36,502,000).

The Group's gearing ratio, representing the total debt divided by total equity, decreased to 2.0% (2018: 27.0%) due to the decrease in loan from third parties during the year.

Liquidity and Financial Resources (Continued)

During the year, net cash generated from operating activities amounted to approximately HK$172,580,000 (2018: HK$159,052,000). The Group has maintained an adequate level of cash flows for its business operations and capital expenditures.

Capital Expenditure and Commitments

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$48,217,000 (2018: HK$47,835,000) to further enhance and upgrade the production capacity. These capital expenditures were financed primarily by cash flow generated from operations.

Assets and Liabilities

As at 31st December, 2019, the Group had total assets of approximately HK$1,432,923,000 (2018: HK$1,562,530,000), total liabilities of approximately HK$291,103,000 (2018: HK$477,990,000) and equity attributable to owners of the Company of approximately HK$1,144,966,000 (2018: HK$1,084,180,000). The net assets of the Group increased by 5.3% to approximately HK$1,141,820,000 as at 31st December, 2019 (2018: HK$1,084,540,000).

SIGNIFICANT INVESTMENT AND ACQUISITION

On 23rd May, 2019, the Group completed the acquisition of 100% equity interest in a subsidiary, Javi Investment Joint Stock Company from an independent third party for a cash consideration of VND561,400,000,000 (equivalent to approximately HK$190,876,000). The principal assets of the subsidiary are leasehold land and land use rights.

SIGNIFICANT DISPOSAL/IMPORTANT EVENT

Pursuant to the term of the loan from third parties, the lenders are entitled to the option (the "Option") to obtain the right to purchase for the residential properties in its current state (the "Right to Purchase") so as to make good of the loan principal of RMB225,000,000 (equivalent to HK$263,070,000) and the relevant accrued interest payable amounting to RMB7,040,000 (equivalent to HK$8,231,000) in full. On 15th March, 2019, the lenders exercised the Option and the transfer of the Right to Purchase has been completed on the same date. Under the terms of the loan agreement, upon the exercise of the option, the lenders undertook not to pursue any outstanding loan amounts against the Group. It resulted in a gain on derecognition of non-current assets of HK$85,301,000 and is recognised in profit or loss during the year ended 31st December, 2019.

SUBSEQUENT EVENT

The outbreak in late December 2019 of the novel coronavirus, has adversely impacted global economic activity in the period subsequent to the reporting date. Given the widespread nature of the outbreak, the relative impact to the Group's operation cannot be reliably quantified or estimated as at the date of this report. The Company continues to closely monitor the situation.

Other than this and matters outlined in these consolidated financial statements, there have been no matters that have occurred subsequent to the reporting date which have significantly affected, or may significantly affect the Group's operations, results or state of affairs in coming foreseeable years.

EXCHANGE RATE RISK

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain bank balances, and trade and other receivables and prepayments, trade and other payable and accruals of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

BUSINESS REVIEW

The ODM business became the major growth driver for the Group. The growth was mainly due to the growth in sales driven by the license of "CAT" obtained by the Group and continued support from major customers. During the year, the Group continued to focus on developing and marketing popular product lines and continuous shipment of "CAT" toys. Although macroeconomic and competitive pressures continued to weigh coupled with the Sino-US trade war and Brexit, the Group's performance in 2019 has not been significantly negatively impacted. Despite an increase in the sales of ODM business, the Group's overall revenue recorded a slight decline, underpinned by a decrease in the sales of OEM business. The Group recorded lower raw material costs and reduced wages expense, which offset the increase in royalty fees as a result of increased sales and the increase in distribution costs resulting from more marketing activities conducted for our new product series. Meanwhile, the transfer of Right to Purchase for certain residential commercial properties brought a one-off gain to the Group, which also contributed to an increase in the Group's net profits.

Manufacturing operations

Vietnam's economy continues to show fundamental strength, supported by domestic demand and export-oriented manufacturing. While supported by robust foreign direct investment inflows, the factors underpinning Vietnam's potential for long-term growth (including low cost of labour relative to its competitors, including China's inland provinces and other East Asian countries despite upward adjustments in minimum wage year by year) remain largely unchanged. The Group maintains its main production base in Vietnam. Leveraging on its leading position in the industry and its capacity expansion plan in Vietnam, the Group reorganised its plant processes, and optimised supply chain processes, which effectively enhanced growth potential to meet the market demand, reduce production costs and further increase gross profit. In addition, the Group kept localising its production and management operations and improving its automatic production level to enhance its production capacity and quality so as to maintain competitiveness. On the other hand, the Group also places product safety as the number one priority. The Group is and has always committed to ensuring compliance with changes in relevant laws and regulations.

Segment performance

The sales momentum of the new product series of ODM business continued from North America to other markets such as Europe, South America and Asia, with strong market support received for the new brands of "CAT" and "Fart Ninjas" and increased shipment to the retail chains of our largest customer. Meanwhile, the Group has exerted efforts in exploring opportunities to promote its products and businesses, so as to further broaden income stream. Despite the price pressure resulting from severe competition among toy manufacturers which has continued to erode the profit margin of each segments, our revenue has remained high in the past years with the growth in sales orders.

Overall speaking, there was an increase in sales orders from mass-market retailers for both ODM products, including toy car products of "CAT" and OBM products, including outdoor game products of "Gazillion ® Bubbles" and "Fart Ninjas". The Group has been actively producing new toy products and introducing sales programs for brands such as "Herodrive", "Fart Ninjas" and "CAT". Though sales of OEM business and lighting products in Europe slightly decreased in the year, the Group's overall revenue reported a slightly decrease.

In view of its leading position in the global toy industry, strong customer base covering top international toy companies and manufacturing base located in Vietnam as well as healthy financial position, it is expected that the Group will be able to achieve the target of sustainable development in the long run with its proven two-pronged development strategy of taking the OEM business as a solid foundation and the OBM business as a growth driver. Meanwhile, the Group continued to streamline its operating procedures to improve efficiency and adopted various measures to strictly control costs.

The US

The US was still a major export market for the Group's products. Our revenue decreased by approximately HK$94,651,000 or 8.2% to approximately HK$1,057,047,000 for this year from approximately HK$1,151,698,000 for the last year. There was a decrease in sales of the OEM business, which offset the increase in sales of the ODM business, resulting in a decrease in the overall revenue.

Economic growth in the US recovered significantly from 2009 to 2019. Low unemployment and high wages as well as the enactment of reforms, including tax cuts, have supported robust economic performance. However, the US economy will see sluggish growth as global trade tensions, including the US-Sino trade dispute, domestic monetary policy tightening and energy price volatility could pose challenges and weigh on trade and investment.

The North American toy market remained strong. The Group recorded an increase in sales from mass-market retailers for ODM toy car products of the new brand "CAT" and OBM outdoor products of "Gazillion ® Bubbles" and an increase in sales of lighting products. However, sales of the girls' toy series products and the OEM products recorded a decrease. Overall, the revenue generated from the US market recorded a slight decline. The Group would strive to maintain its authorised licensing business for major brands, enrich other product lines and retain existing distributors and clients, including Wal-Mart, Target and Amazon.

Canada

Our revenue in the Canadian market increased by approximately HK$12,962,000 or 22.7% to approximately HK$70,047,000 this year from approximately HK$57,085,000 last year.

Canada's healthy banking and financial system and continued growth in non-commodity export-related industries aided by low statutory tax rates have lent support to domestic business. Although the Canadian economy is expected to strengthen in line with the stronger US and global economy, the country's growth is likely to be tempered by uncertainty stemming from volatility in commodity prices as well as near-term downside risks posed by global trade tensions, volatile oil prices and elevated household debt.

The sales from the Group's mass-market retailers in respect of OBM outdoor game products of "Gazillion ® Bubbles" and ODM toy car products of "CAT" continued to increase, which offset the decrease in the sales of girls' toy series products and push toy products. As a whole, the revenue generated from the Canadian market recorded an increase. The Group will make efforts to maintain its existing distributors and clients, such as Wal-Mart, Toys "R" US and Costco Canada.

Europe

Our revenue in Europe increased by approximately HK$13,959,000 or 14.1% to approximately HK$113,303,000 this year from approximately HK$99,344,000 last year.

The EU economy moderated due to escalated trade tensions with the US, political uncertainty as well as slowing economic growth in some Member States such as Germany, France, the UK and Italy, which posed recent economic downside risks. To cope with the downside risks, the European Central Bank kept elements of its exceptionally loose monetary policy fundamentals after ending its quantitative easing program in 2018. Overall, both the eurozone and EU continued expanding in 2019.

Despite the slowdown in economic growth in the EU, the Group continued to focus on sales orders of "CAT" products and OBM outdoor products of "Gazillion ® Bubbles", which recorded an increase in orders received. The Group recorded an increase in orders from customers in the UK, Denmark, Estonia, Netherlands, Finland, Italy, Russia, Ukraine, Switzerland, France, Spain, Portugal and Belgium, despite a decrease recorded in sales of lighting products in Europe. Overall, our revenue in the European market recorded an increase. The Group will continue its efforts to maintain existing distributors and clients such as Costco.

Mexico

Our revenue in Mexico increased by approximately HK$5,039,000 or 97.8% to approximately HK$10,190,000 this year from approximately HK$5,151,000 last year.

While trade growth remains strong, emerging risks stemming from global trade protectionism and the slower pace of internal reforms may impact investment. Mexico's growing manufacturing sector, solid private consumption levels and ongoing deepening of domestic financial markets combined with an uptick in fixed investment into the energy sector in the next few years imply economic growth will be solid. Overall, due to an increase in orders for the Group's ODM toy car products, our total revenue in the Mexican market recorded an increase.

Australia and New Zealand

Our revenue in the Australia and New Zealand markets increased by approximately HK$13,251,000 or 53.3% to approximately HK$38,107,000 this year from approximately HK$24,856,000 last year.

Persistent fiscal deficits in recent years weighed on Australia's economic risk profile, but overall the country still performed well and the fiscal deficit narrowed significantly. The favourable financing conditions, coupled with somewhat stronger consumer spending, should prop up domestic demand. The New Zealand economy is boosted by the country's low unemployment and strong fiscal health. Nevertheless, there appears to be growing reliance on external financing and the economy faces downside risks due to a still precarious property market. The Group recorded an increase in orders for ODM toy car products and boys' toy series of "Fart Ninjas", which offset the decrease in sales of lighting products, girls' toy series products and OBM outdoor products of "Gazillion ® Bubbles". Our overall market revenue in Australia and New Zealand recorded an increase. The Group will continue its efforts to maintain its existing distributors and clients such as Big W.

South America

Our revenue in South America markets increased by approximately HK$5,470,000 or 64.0% to approximately HK$14,020,000 this year from HK$8,550,000 last year.

As South American companies are expanding into the global market, there may be a pool of potential new customers. Yet not every South American country has responded in the same way to the global economy. Each has chosen a development path dependent upon their natural resource endowments due to the unfavorable global commodity prices and the weak consumer and investor confidence. However, a majority has turned to diversification of industry and exports for economy growth.

Overall, the Group recorded an increase in sales in Panama, Chile, Argentina, Honduras, Ecuador, Costa Rica, Colombia, Guatemala, Paraguay, Bolivia and Peru. Orders for toy car products and outdoor game products in ODM business increased. As a whole, our revenue in South American markets recorded an increase.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2019, the Group had a total of approximately 7,700 (2018: 9,500) employees in Hong Kong, Macau, the PRC, Vietnam, Australia, the US, Canada, Taiwan, Mexico and Europe. The Group provides its employees with competitive remuneration packages commensurate with the level of pay established by the market trend in comparable businesses. A share option scheme was adopted by the Group for selected participants (including full-time employees) as incentives or rewards for their contributions to the business and operation of the Group. A mandatory provident fund scheme and respective local retirement benefit schemes are also in place.

ENVIRONMENTAL PROTECTION

The Group believes that maintaining a healthy and harmonious relationship with its stakeholders and fulfilling its social responsibilities to the community is essential for building and preserving the value of the Group. Adhering to the principle of Reducing, Recycling and Reusing, the Group encourages green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances, and will consider implementing further eco-friendly measures and practices in the operation of the Group's business.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those that have significant impact on the Group. The Board and internal audit function team delegated by the Board monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. In accordance with the requirements of the laws, regulations and related policies in Hong Kong, the PRC, Vietnam and other relevant jurisdictions, the Company provides and maintains statutory benefits for its staff, including but not limited to mandatory provident fund, basic medical insurance and labour insurance. All employees are entitled to statutory holidays. The Group has registered its products, domain name and trademarks in Hong Kong, the PRC and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group acknowledges that employees, customers and business partners are crucial to its sustainable growth. The Group is hence committed to building up close and caring relationship with its employees, provide exceptional service to its customers and enhance partnership with its business partners.

PROSPECT

Looking forward, in light of the ongoing US-China trade war, there is an increasing number of customers exploring manufacturers based outside China. The Group, as a toy manufacturer, is well positioned with its strong production capacity especially in Vietnam and able to stand out from its peers to attract new customers while maintaining good relations with existing customers. In view of the rapid change of global economy arising from the Brexit, the Group will continue to explore sales opportunities, and review and navigate its business strategies based on the market changes. The Group designs and manufactures a wide spectrum of toys for our customers who sell such products worldwide to the end customers. The Group will continue to explore new sales opportunities and manufacture high quality products with competitive prices to sustain its business in pursuit of sustainable development in the long run. The Group has launched a number of new toy products for renowned toy car license holders under licensed brands, including a new line of "CAT" toy cars, enriched its series of "Herodrive" and "Fart Ninjas", and actively promoted other new products to other retailers. The Group will closely examine new opportunities that enable it to advance diversified development, so as to broaden the Group's revenue and customer base and contribute to cross-selling opportunities that lead ultimately to the further broadening of revenue stream. Meanwhile, the Group will continue to develop its OEM business, which will help secure income sources. The Group will continue its efforts to enhance machinery automation and process control technology with an aim to expanding its production capacity to meet rising market demand.

Entering into 2020, the outbreak of the 2019 Novel Coronavirus (COVID-19) has brought uncertainties to the operating environment of the Group. However, the situation is still full of uncertainty at this moment. The Group will review and adjust its business prospects and future investment plans time from time based on market demand and the needs of its existing customers, so as to generate revenue and profits.

The Group has a long history of running the manufacturing business in Da Nang, Vietnam and is familiar with the business environment of Da Nang. The Group acquired the land use rights to five parcels of lands located at Lien Chieu District of Da Nang City, which were intended to be developed for property investment purpose. The acquisition is in line with the overall development strategy of the Group of actively identifying and exploring different investments and good merger and acquisition opportunities in order to acquire new businesses or assets that will bring additional value, synergistic effects and new income streams to the Group, with a view to broadening its assets and income base. The Group will strive to expand its existing operations and diversify its businesses to strengthen income base. Meanwhile, the Group will also actively seek to acquire new business or assets that will bring additional value and new income streams to the Group, in order to maximise the interests of the Group and the shareholders as a whole, strengthen its leading position in the global toy market and bring long-term returns to its shareholders. As such, the Group will closely monitor the Company's development strategy so as to maximise the return for our shareholders.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 68, was appointed Chairman of the Company in September 2000 and also the Chairman of the nomination committee of the Company. Mr. Cheng is responsible for the overall corporate policies and development strategies and monitoring the overall management of the Group. Mr. Cheng has in-depth knowledge and extensive experience in business operations in Greater China. Mr. Cheng has more than 39 years' extensive experience in plastic toys manufacturing, property development and investment. Mr. Cheng is also a director of Smart Forest Limited (Mr. Cheng's wholly owned company) which owns share interest in the Company. He is the father of Mr. Cheng King Cheung, Executive Director of the Company.

Mr. Yu Sui Chuen

Aged 64, was appointed Executive Director of the Company in September 2000. Mr. Yu holds a Higher Diploma in Business Administration major in Accounting. Mr. Yu has over 39 years' experience in finance management and administration of which nearly 10 years as a member of the management committee of a listed company. Mr. Yu is currently responsible for finance and accounting management, corporate finance, legal and taxation management and internal control of the Group.

Mr. Cheng King Cheung

Aged 28, was appointed Executive Director of the Company in October 2013. Mr. Cheng holds a bachelor's degree in Government from Franklin and Marshall College in Pennsylvania, USA. Mr. Cheng joined Funrise Group since 2010. He has about ten years' experience in sales and marketing of toys. He is currently a Chief Executive of Funrise Group. He is a son of Mr. Cheng Yung Pun, the Chairman of the Company.

Mr. Tse Kam Wah

Aged 69, was appointed Executive Director of the Company in November 2009. Mr. Tse obtained a higher certificate in mechanical engineering from The Hong Kong Polytechnic University. He has over 32 years' experience in toy factory and production management. His experience ranges from managing all manufacturing activities of the corporations in the base outside Hong Kong, monitoring manufacturing process to product development. He joined the Group over 21 years and is currently responsible for the production management.

Mr. Tsang Chung Wa

Aged 56, was appointed Executive Director of the Company in January 2011. He holds a Diploma in Management Studies awarded jointly by The Hong Kong Management Association and The Hong Kong Polytechnic University. He has over 31 years' experience in the operation, sales and production management of toy industry. His experience ranges from managing marketing activities of the corporations in the base outside Hong Kong to business development. He joined the Group over 19 years and is currently responsible for the marketing management and the related business management works.

Ms. Yip Hiu Har

Aged 40, was appointed Executive Director of the Company in April 2018. She holds a Bachelor of Arts degree in Language with Business from The Hong Kong Polytechnic University. Ms. Yip joined the Group since 2007. She has about 12 years' experience in toy industry. She is currently in charge of procurement of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam

Aged 70, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director in September 2004. He also serves as the Chairman of the audit committee, the remuneration committee and a member of the nomination committee of the Company. Dr. Loke has over 43 years of working experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries. He is also a member of The Hong Kong Independent Non-executive Director Association. Mr. Heng Victor Ja Wei, an Independent Non-Executive Director of the Company, is his nephew-in-law.

In addition to his directorship in the Company, Dr. Loke also serves as an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Chiho Environmental Group Limited (formerly known as Chiho-Tiande Group Limited), CIMC-TianDa Holdings Company Limited (formerly known as China Fire Safety Enterprise Group Limited), Forebase International Holdings Limited, Hang Sang (Siu Po) International Holding Company Limited, Hong Kong Resources Holdings Company Limited, TC Orient Lighting Holdings Limited, Tianhe Chemicals Group Limited, Tianjin Development Holdings Limited, TradeGo Fin Tech Limited, Zhenro Properties Group Limited. Zhong An Group Limited (formerly known as Zhong An Real Estate Limited) and V1 Group Limited (formerly known as Vodone Limited),

Mr. Mak Shiu Chung, Godfrey

Aged 57, was appointed Independent Non-executive Director in May 2000 and is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Mak holds a Bachelor of Science degree in business studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. He is a Member of the Hong Kong Securities Institute; a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators. Mr. Mak has over 29 years of experiences in the field of corporate finance.

Mr. Wan Hing Pui

Aged 89, was appointed Independent Non-executive Director in September 2004 and is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Wan has over 61 years of experiences in auditing, taxation and financial management consultancy services. He is an Associate Member of The Institute of Chartered Accountants in England and Wales and a Fellow of Hong Kong Institute of Certified Public Accountants. He is a sole proprietor of H.P. Wan & Co., a firm of Certified Public Accountants (Practising).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Heng Victor Ja Wei

Aged 42, was appointed Independent Non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company in December 2012. He is a partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College of Science, Technology and Medicine, the University of London. He is a member of and holds a Certified Public Accountant (Practising) certificate issued by The Hong Kong Institute of Certified Public Accountants and a Fellow of The Association of Chartered Certified Accountants. He is a nephew-in-law of Dr. Loke Yu alias Loke Hoi Lam, an Independent Non-Executive Director of the Company. Mr. Heng serves as an independent non-executive director of CIMC-TianDa Holdings Company Limited, Best Food Holding Company Limited, Lee & Man Chemical Company Limited and SCUD Group Limited and as Company Secretary of China Life Insurance Company Limited, whose shares are listed on the main board of the Stock Exchange.

CHIEF EXECUTIVE OFFICER

Mr. Chen Wei Qing

Aged 52, was appointed as Chief Executive Officer of the Company in May 2008. Mr. Chen is responsible for new product development and manufacturing operations of the Group. He has above 31 years' extensive experience in product development and manufacturing toys.

Corporate Governance Report

The board of directors (the "Board") of Matrix Holdings Limited (the "Company") has adopted the Company's corporate governance code (the "CG Code") to reflect the requirements of Appendix 14 (the "HKEx Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Continuous efforts are made to review, apply and enhance the Group's procedures in light of changes in regulations and developments in best practices. Following sustained development of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards. The Board is pleased to report compliance with the CG Code under the HKEx Code during the year ended 31st December, 2019 except where otherwise stated in section "Report of the Directors".

A. DIRECTORS

1. The Board

The Board assumes responsibility for directing the Company and enhancing its value for shareholders in accordance with good corporate governance principles and has established relevant board committees to assist in discharging this responsibility.

The principal functions of the Board are to make decision on the strategic development of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management of the Company and its subsidiaries for its day-to-day management and operation of the Group's businesses, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision; to oversee and evaluate the conduct of the Group's businesses; to identify principal risks and ensure the implementation of appropriate measures and control systems; to review and approve important matters such as financial results and investments etc.; and to review the Company's policies and practices on corporate governance.

As at 31st December, 2019, at least one-third of the Company's board are Independent Non-executive Directors ("INED") of which the Board comprises six executive directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Yu Sui Chuen, Mr. Cheng King Cheung, Mr. Tsang Chung Wa, Mr. Tse Kam Wah and Ms. Yip Hiu Har and four INEDs, namely Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei, (collectively the "Directors"). The INEDs required under Rule 3.10(1) of the Listing Rules who represent one third of the Board and include three with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

A. DIRECTORS (Continued)

1. The Board (Continued)

In accordance with the Bye-laws, the CG Code of the Company, every Director should be subject to retirement by rotation at least once every three years. All Directors appointed as an additional Director or to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. However, non-executive Directors (including independent non-executive) are not appointed for a specific term as stipulated by the HKEx Code. It is a deviation from code provisions A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. Since all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to meet the intent of the relevant provision in the HKEx Code and CG Code and are no less exacting than those provisions as they are subject to retirement by rotation and re-election at the annual general meetings of the Company. As such, the Company considers that such provisions are sufficient of the HKEx Code.

The Directors who are subject to retirement and re-election at the 2020 Annual General Meeting are set out on page 50 of this Annual Report. The independence of the INED has been assessed in accordance with the applicable Listing Rules as each of the INED has provided an annual written confirmation of independence pursuant to the Listing Rules 3.13.

The Company considers that the INEDs continue to be independent in compliance with those independence criteria under the said rule and are capable to effectively exercise independent judgment up to and as at the date of this report.

The Directors' biographical details are listed in the section of "Biographies of Directors and Senior Management" in this report. Save as Mr. Cheng King Cheung is a son of Mr. Cheng Yung Pun and Mr. Heng Victor Ja Wei is a nephew-in-law of Dr Loke Yu alias Loke Hoi Lam, there is no financial, business, family or other material/relevant relationship between the Directors. The INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

A. DIRECTORS (Continued)

2. Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and the CEO of the Company are segregated and are not held by the same person and are governed by the Chairman Mandate and CEO Mandate (containing the minimum prescribed duties) and stated in the Company's own CG Code. The primary responsibility of the Chairman is to ensure smooth and effective functioning of the Board. His responsibilities are, inter alia, the leadership and effective running of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that Directors receive adequate information, which must be complete and reliable, in a timely manner. The CEO is delegated with the authority and his principal responsibilities are, inter alia, running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives. Currently, Mr. Cheng Yung Pun is the Chairman and Mr. Chen Wei Qing is the CEO of the Company.

3. Board Meetings and Access of Information

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allow board meetings to be conducted by way of telephone or video conference. Members of the Board receive information before the meetings about developments in the Company's business.

During the year under review, the Board held twelve board meetings (including some meetings held by video or telephone conference) in which Mr. Yu Sui Chuen, Ms. Yip Hiu Har, Dr. Loke Yu alias Loke Hoi Lam and Mr. Heng Victor Ja Wei had attended all board meetings; Mr. Cheng Yung Pun and Mr. Mak Shiu Chung, Godfrey had attended eleven board meetings; Mr. Tse Kam Wah had attended ten board meetings; Mr. Tsang Chung Wa had six board meetings; Mr. Wan Hing Pui had attended five board meetings and Mr. Cheng King Cheung had attended three board meetings.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors. Board papers are circulated prior to board meetings in a timely manner in which sufficient information was supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

All Directors have access to the advice and services of the company secretary and upon reasonable request, independent professional advice in appropriate circumstances at the Company's expense, if any.

A. DIRECTORS (Continued)

4. Directors' Securities Transactions

The Company has adopted and amended from time to time its code for securities transactions by directors of listed issuers as the code of conduct governing directors' securities transactions in compliance with the recently amended Appendix 10 to the Listing Rules (the "Model Code").

All Directors of the Company during the year, following specific enquiry by the Company, have confirmed that they have complied with the required standard set out in the Company's own code and the amended Model Code throughout the year.

5. Directors' Continuous Training and Development Programme

Pursuant to the HKEx Code, all Directors should participate the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company has introduced the development programme for Directors. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of its conduct, and business activities and development. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

During the year ended 31st December, 2019, all Directors of the Company namely, Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Mr. Cheng King Cheung, Ms. Yip Hiu Har, Mr. Tsang Chung Wa, Mr. Tse Kam Wah, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei received regular updates on the Group's business, operations and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. They also attended regulatory update sessions on relevant topics. All Directors are requested to provide the Company with their respective training record pursuant to the CG Code.

B. DIRECTORS' REMUNERATION

1. Remuneration Committee ("RC")

The principal role and functions of RC include, inter alia, reviewing the Board on the remuneration policy and structure for the remuneration of Directors and senior management, the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment, as well as to make recommendation to the Board as described under Code B.1.2(c)(ii) of the HKEx Code. The RC consults the Chairman and/or CEO about their proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No Directors and executives can determine his own remuneration. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company. Detailed terms of reference of the RC are accessible on the website of the Company and the Hong Kong Exchanges and Clearing Limited ("HKEx").

Membership and attendance:

The RC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2019, all members of the RC except Mr. Wan had attended the RC meeting.

Work done during the year

- reviewed its remuneration policy for Directors and senior management; and
- reviewed the remuneration packages of executive Directors and senior management for the year 2019.

2. Level and Make-up of Remuneration

The Group's remuneration policy for executive Directors and senior management is linked to performance, service seniority and experience, which are reviewed from time to time to align with market/industry practices.

Details of the remuneration of the Directors for the year ended 31st December, 2019 are provided in Note 10 to the Consolidated Financial Statements in this annual report.

C. DIRECTORS' NOMINATION

1. Nomination Committee ("NC")

The NC shall report back to the Board in writing on their decisions or recommendations within a reasonable time after such decisions or recommendations are made, unless there is legal or regulatory restriction on the Committee to do so. Its role and functions shall be the review of the structure, size and composition (including the skills, knowledge, experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy; identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; assess the independence of INEDs; make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. Where vacancies on the Board exist or an additional Director is considered necessary, the chairman of the NC will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the NC will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics etc. of the candidates and approved if such appointment considered suitable. The NC also considers the existing human resources policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new Director. The overriding objective of the nomination policy is to ensure that the Company is able to nominate a right person to be director which is essential to the success of the Company. Detailed terms of reference of the NC are accessible on the website of the Company and the HKEx.

NC's principal role is to review the Board's size, structure and composition to ensure that the Board has and by reviewing the Board's size, structure and composition, the Board will also consider a balance of ages, talents expertise, skills, experience, independent, knowledge and gender appropriate according to the Company's Board Diversity Policy.

Membership and attendance:

The NC comprises Mr. Cheng Yung Pun as chairman, Dr. Loke Yu alias Loke Hoi Lam, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2019, all members of NC except Mr. Wan had attended the meeting.

Work done during the year

- reviewed the structure, size and composition of the Board, and is of the view that there is an appropriate and diverse mix of skills and experience;

- reviewed the independence of INEDs of the Company and confirmed that all INEDs are considered independent;

- reviewed the profile and performance of Directors who will stand for re-election at Annual General meeting and confirmed that all those Directors are suitable to stand for re-election; and

C. DIRECTORS' NOMINATION (Continued)

1. Nomination Committee ("NC") (Continued)

- reviewed and assessed the composition of the Board;

- reviewed the existing Nomination Policy on i) whether it can and how to identify potential directors and which the selection process should be transparent and fair. The Company is encouraged to select from a broad range of candidates who are outside the Board's circle of contacts, and in accordance with the Company diversity policy; and ii) whether it sets out the procedure for the selection, appointment and reappointment of directors containing the selection criteria. This should include, but not limited to, considering the potential contributions a candidate can bring to the board in terms of qualifications, skills, experience, independence and gender diversity or not.

2. Implementation of Board Diversity policy

- The policy concerning diversity of the board includes a mechanism on how NC oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the NC will consider the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of talents, skills, experience and background on the Board. In recommending candidates for appointment to the Board, the NC will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the NC will consider the balance of ages, talents, skills, experience, independence, knowledge and gender on the Board and the diversity representation of the Board.

- The NC will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. It will also review annually the progress on achieving those objectives. Such as, the Nomination Committee is encouraged to (a) be more transparency on the considerations for diversity, including gender, during the nomination process of directors if the Company is without a single woman on its board;(b) articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent; (c) express the Nomination Committee or the Company's commitment to diversity at all levels, including gender, age, culture and educational background, or professional experience; (d) assess annually on each issuer's diversity profile including gender balance of the directors and senior management and their direct reports, and its progress in achieving its diversity objectives; (e) ensure that recruitment and selection practices at all levels (from the board downwards) are appropriately structured so that a diverse range of candidates are considered; and (f) state whether the Nomination Committee or the Company has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

D. ACCOUNTABILITY AND AUDIT

1. Audit Committee ("AC")

The principal role and functions of the AC are, inter alia, to review the appointment of the external auditor on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditor in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorisation of non-audit services provided by the external auditor.

Detailed terms of reference of the AC are accessible on the website of the Company and the HKEx.

Three AC members are qualified accountants. None of the AC members are members of the former or existing auditor of the Company.

Membership and attendance:

The AC comprises Dr. Loke Yu alias Loke Hoi Lam as chairman, Mr. Mak Shiu Chung, Godfrey, Mr. Wan Hing Pui and Mr. Heng Victor Ja Wei. For the year ended 31st December, 2019, all members had attended the two meetings except Mr. Wan. The finance director and the group financial controller are normal attendees of the AC meetings. Where appropriate, representatives of the external auditors are invited to attend the AC meetings to present significant audit and accounting matters which they noted in the course of their audit.

D. ACCOUNTABILITY AND AUDIT (Continued)

1. Audit Committee (“AC”) (Continued)

Work done during the year

- carried out interim and final financial review;
- reviewed interim and annual reports before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements;
- reviewed the external auditor’s engagement letter; to discuss issues during the audits of external auditor. The external auditor and the senior executives are invited to attend the meeting for annual financial statements;
- reviewed the nature and scope of external audit and approved the external audit fee;
- reviewed the interim financial report, interim results announcement, the annual accounts and the annual results announcement in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements;
- reviewed continuing auditor objectivity and to safeguard independence of the Company’s auditors;
- met the external auditor to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditor suggests to discuss;
- reviewed the Group’s internal control system;
- served as a focal point for communication between other Directors and the external auditor in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time;
- considered major findings of internal review and management’s response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action;
- devised a framework for the type and authorisation of non-audit services provided by the external auditor.

D. ACCOUNTABILITY AND AUDIT (Continued)

2. Financial Reporting

The financial statements of the Company for the year ended 31st December, 2019 have been reviewed by the AC and audited by the external auditor, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Board approves the financial statements after taking into account specific accounting matters. The Board is satisfied that appropriate accounting policies have been used in preparing the financial statements, consistently applied and complied with the relevant accounting standards. Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards and also ensure the publication of the financial statements of the Group in a timely manner.

The Listing Rules require listed companies to prepare annual financial statements which shall provide a true and fair view of the state of affairs of the companies and of the results of their operations and cash flows.

The Board is responsible for ensuring the maintenance of proper accounting records of the Group. It has also acknowledged its responsibility for preparing the financial statements in a timely manner.

A statement of the auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 58 to 62 of this annual report.

3. Internal Control

The directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

The Audit Committee has, at a regularly scheduled meeting throughout the year, received a report from Group Internal Audit on the results of their activities during the preceding period and reported to the Board, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls.

D. ACCOUNTABILITY AND AUDIT (Continued)

3. Internal Control (Continued)

The Board and Audit Committee accordingly have conducted a review of its risk management and internal control systems on (a) whether the Company has an internal audit function; (b) how often the risk management and internal control systems are reviewed; and (c) a statement that a review of the effectiveness of the risk management and internal control systems has been conducted and whether the Company considers them effective and adequate. They also reviewed the effectiveness of the system of internal control of the Group including the relevant financial, operational and compliance controls and risk management procedures and has delegated to the management the implementation of such systems of internal controls.

Appropriate control procedures have been designed to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

Parties involved in internal control function:

Chief audit executive

The Group's chief audit executive with accounting experience and qualification, serve the Board in the Group to overseeing the Group's financial reporting procedure, internal controls and compliance with the accounting-related requirements under the Listing Rules. Notwithstanding, the Board considers the adequacy of resources, qualifications and experience of staff of the Company's accounting and financing reporting function and their training programmes and budget.

Internal audit function team

The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to set up an inhouse internal audit function team to perform internal audit functions for the Group. As the Group uses internal resources to comply with internal audit function, an inhouse internal audit function team was set up in 2015. The Audit Committee has identified the main risks in the Group and that the internal audit function team designed an internal audit program and will emphasise on the review of the risks according to the Risk Management plan. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

The Internal Audit function team comprises three members. It reviews and monitors dealings of the Group to ensure that all dealings with these entities are conducted on an arm's-length basis.

D. ACCOUNTABILITY AND AUDIT (Continued)

3. Internal Control (Continued)

The Internal Audit function team reviews significant aspects of risk management for the Group companies and makes recommendations to the Audit Committee and other committees (as the case may be) if necessary, including amongst other things, the appropriate mitigation. The Audit Committee of the Company has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the team leader of internal audit function team to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee. The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company.

The Group's internal audit function team provides independent assurance to the Board and executive management on the adequacy and effectiveness of internal controls for the Group. The team leader of internal audit function team reports directly to the Chairman of the Audit Committee under adoption of a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. During 2019, the Group internal audit function team conducted selective reviews of the effectiveness of the Group's internal audit program.The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the internal control systems to be generally effective and adequate.

4. Auditors' Remuneration

During the year under review, the fees paid or payable to the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, Hong Kong, were approximately HK$2,473,000 and HK$300,000 for statutory audit services rendered (including disbursement fees) and non-audit services rendered to the Group respectively.

Remuneration paid to other auditors for audit and non-audit services rendered to overseas subsidiaries was approximately HK$2,933,000.

E. CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the HKEx Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to review the Company's compliance with the HKEx Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance matters:

- reviewed the corporate governance duties under the HKEx Code; and
- review the compliance with the HKEx Code.

F. INVESTOR RELATIONS

1. Communication with investors

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the potential investors through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments.

During the year under review, there are no changes to the Company's bye-laws.

2. Annual General Meeting ("AGM")

The AGM provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as chairman of the Committees and their members is pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of individual Directors particularly the INED – Dr. Loke Yu alias Loke Hoi Lam to be re-elected at the 2020 AGM, as he is being an INED for more than 9 years.

F. INVESTOR RELATIONS (Continued)

2. Annual General Meeting ("AGM") (Continued)

The circular to shareholders dispatched together with the annual report includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election. In order to comply with the Listing Rules and CG Code as well, the forthcoming AGM will be held with voting by way of a poll and that all shareholders will be given a notice for 20 clear business day or 21 days (whichever is later). The results of the poll in general meetings from time to time will be published on website of the Company and HKEx.

All directors except Mr. Tsang Chung Wa, Mr. Cheng King Cheung and Mr. Tse Kam Wah had attended the 2019 AGM of the Company held on 9th May, 2019.

3. Rights and Procedures for Shareholders to Convene Shareholders' Meetings, make enquiries and putting forward proposals at the Shareholders' Meetings

i) the procedures for the way in which shareholders can convene an extraordinary general meeting:

Pursuant to the Company's bye-laws, a special general meeting shall be convened on the written requisitionist of any 2 or more members holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. Such requisition must state the objects of the special general meeting and must be signed by the requisitionists and deposited at the office. If the Directors do not within 21 days from the date of the deposit of such requisition proceed duly to convene a special general meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them may convene the special general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors to convene such a meeting shall be reimbursed to them by the Company.

ii) Make Enquiries:

In accordance with the Company's Shareholders' Communication Policy, the Shareholders direct their questions about their shareholdings to the Company's Branch Share Registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (the "Branch Share Registrar") or the Customer Service Hotline of the Branch Share Registrar at (852) 2980-1333 from 9:00 a.m. to 5:00 p.m. Monday to Friday (excluding Hong Kong public holidays) or by email at matrix1005-ecom@hk.tricorglobal.com.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Shareholders shall make a request to the Branch's Share Registrar for the designated email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

F. INVESTOR RELATIONS (Continued)

3. Rights and Procedures for Shareholders to Convene Shareholders' Meetings, make enquiries and putting forward proposals at the Shareholders' Meetings (Continued)

iii) Put forward proposals:

Pursuant to the Company's bye-laws, notice in writing by any 2 or more shareholders entitled to attend and vote at the meeting holding at the date of the deposit of the notice in aggregate not less than one-tenth of such of the paid up capital of the Company (not being the person to be proposed) for which such notice is given of his intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company at least 7 days before the date of the general meeting appointed for such election. The period for lodgment of the notice required under this Bye-Law shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

iv) Dividend Policy

The Board may propose the payment of dividends, if any, with respect to the Company's shares on a per Share basis. Any dividend for a financial year shall be subject to shareholders' approval. Under the Company Law and the Company Bye-Laws, all of the Company's shareholders have equal rights to dividends and distributions. The declaration of dividends is subject to the discretion of the Board, which the Company expects will take into account one or more of the factors when considering the payment of dividends such as a) the Company's financial results or financial performance; b) the Company's shareholders' interests or needs; c) general business conditions and strategies or business prospects; d) the Company's immediate or anticipated capital requirements; e) contractual restrictions on the payment of dividends by the Company to the Company's shareholders or by the Company's subsidiaries to the Company; f) statutory and regulatory restrictions; g) possible effects on the Company creditworthiness; h) the amount of distributable profits available at the relevant time; and i) any other factors the Board may deem relevant.

1. SCOPE AND REPORTING PERIOD

1.1 Report Compilation Basis

This Report is prepared with reference to Environmental, Social and Governance ("ESG") Reporting Guide as described in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

1.2 Scope of Reporting

The Group is engaged in the toy manufacturing business for international brand customers and lighting products manufacturing directly to consumers or through sub-distributors on wholesale basis. This Report covers the relevant policies and performance of the said manufacturing businesses of the Group.

1.3 Reporting Period

The information published in this ESG report covers the period from 1st January, 2019 to 31st December, 2019.

1.4 Stakeholder Engagement and Materiality

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including shareholders, employees and management have been invited to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

2. ENVIRONMENTAL PERFORMANCE

The Group's manufacturing business is closely related to environmental protection and the usage of natural resources. The Group has established a set of management mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group.

2.1 Emissions Policy and Compliance

The Group strives to have the efficiency in the usage of energy, water and materials and also complies with relevant local environmental regulations and local jurisdiction's general practices and aims at international standard, with an aim to reduce the use of natural resources and protect the environment. The actions taken are aligned with international standards. These include greenhouse gas emission inspections, reduction, classification and recycling of waste, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels.

Total floor area coverage of the various factories in Vietnam of the Group was 122,722.2 m^2 (2018: 122,722.2 m^2) and the Group accounts for the emissions from its factory operations in Vietnam mainly. Type of emissions from the production plant operations in Vietnam in the reporting year was mainly unleaded diesel oil, electricity, water, paper, hazardous waste and non-hazardous waste.

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.1 Emissions Policy and Compliance (Continued)

2.1.1 Types of Emissions

Carbon footprint generated from the manufacturing plants is disclosed in this ESG report. Carbon footprint is defined as the total amount of direct and indirect emissions of greenhouse gas (GHG) expressed in terms of equivalent amount of carbon dioxide (CO_2-eq) emission.

2.1.2 Greenhouse Gas Emissions

The total net GHG emission emitted by the Group's operation was 17,894.36 tonnes (2018: 19,727.65 tonnes) of carbon dioxide equivalent (tCO_2-eq). The source of the GHG emission was mainly from the consumption of electricity.

During the reporting year, the following table highlights the carbon footprint.

Scope of Greenhouse Gas Emissions	Emission Sources	**2019** Emission (in tonnes of CO_2e)	2018 Emission (in tonnes of CO_2e)	**2019** Total Emission (in percentage)	2018 Total Emission (in percentage)
Scope 1					
Direct Emission	Unleaded Diesel Oil consumed by generator, forklift, boiler	**37.96**	40.75	**0.21%**	0.21%
Scope 2					
Indirect Emission	Purchased Electricity	**17,834.60**	19,651.50	**99.67%**	99.61%
Scope 3					
Other Indirect Emission	Water Consumption	**21.80**	35.40	**0.12%**	0.18%
	Total:	**17,894.36**	19,727.65	**100%**	100%

The major contributor of the GHG emission was from Scope 2: indirect emission, over 99.67% (2018: 99.61%) of the total emission. A further GHG emission analysis is made below:

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.1 Emissions Policy and Compliance (Continued)

2.1.2 Greenhouse Gas Emissions (Continued)

Unit	**2019**	2018
Total Greenhouse Gas Emitted (a) tCO_2e	**17,894.36**	19,727.65
Total Floor Area Coverage (b) m^2	**122,722.2**	122,722.2
Total production weight (KG)	**5,315,514**	8,033,399
Annual Emission Intensity (c) = (a)/(b) tCO_2e/m^2	**0.146**	0.161
Annual Greenhouse Gas emission Intensity (c) = (a)/(b) tCO_2e/KG	**0.0039**	0.0025
Total Removal by installing of LED equipment (e) tCO_2e	**12,241**	12,043

2.1.3. Emission Prevention

In 2019, there was 17,894.36 tonnes (2018: 19,727.65 tonnes) of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted in total from the Group's operation in the reporting period. The annual emission intensity was 0.146 tCO_2e/m^2 (2018: 0.161 tCO_2e/m^2). Main factors of greenhouse gas emissions is energy; thus the Group was of the opinion that using and savings energy efficiently is a method to decrease GHG emissions amount by i) establishing energy management system in factory; ii) continuously replacing all normal light bulbs to be light-emitting diode ("LED") saving energy lighting; iii) installing roof of new facility made with transparent material to provide optimum natural illumination to avoid energy wastage; iv) window panes which are made in a way to provide the working environment with natural ventilation for better indoor air quality, as well as natural illumination to save energy which contributed to a total amount of 12,241 tonnes (2018: 12,043 tonnes) of carbon-dioxide equivalent greenhouse gases.

2.1.4 Non-hazardous waste, paper and hazardous waste

Non-Hazardous waste

Non-hazardous waste from the Group's operation includes living wastes, plastic, packaging material, carton paper, cloth, for factories' uses and sales and marketing purposes.

Hazardous waste

A total of 37.000 kg were collected (2018: 16.000 kg) of hazardous waste.

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.1 Emissions Policy and Compliance (Continued)

2.1.5 Use of paper and packaging material

A total of 0.9 tonnes (2018: 0.67 tonnes) has been used for daily office operations and advertising materials such as leaflet, catalogue, sales kit, part of them have been collected by licensed recycling company. Packaging materials such as plastic bottles and carton paper including carton containers used for production and paper waste were disposed in a total sum of 263,691 tonnes due to the insourcing of printing works by the printing department (2018: 61.31 tonnes).

2.1.6 Waste reduction

The Group continues to practice paper saving and waste reduction initiatives, such as default double-sided printing, reminder for staff to have environmentally friendly photocopying habit, and separated collection of waste paper, plastic, cloth etc. for effective recycling.

2.2. Use of Resources

2.2.1 Energy

Electricity

The electricity consumption by the Group was 31,621,610 kW-h (2018: 34,093,434 kW-h).

The Group continues its commitment in installing and switching to energy-saving lighting fixtures for example the LED equipment and sourcing energy efficient equipment to ensure functioning in optimal conditions and efficiency. In addition, the Group participated in the Environmental Score-Card ("ESC"). The ESC was launched by the factories in compliance with local environmental regulations and customer requirement with a focus on raising awareness on light nuisance and energy wastage.

2.2.2 Unleaded Diesel Oil

A total of 13,600 liters (2018: 14,800 liters) of unleaded diesel oil was used for contributing to 37.96 tonnes (2018: 40.75 tonnes) of carbon dioxide equivalent in the reporting period.

2.2.3 Water

Water consumption by the Group was 69,941 m^3 (2018: 93,123 m^3), with water intensity of 0.57 m^3/m^2 (2018: 0.76m^3/m^2). Same as last year, only the operation factories and offices with total floor area coverage of 121,316.4 m^2 (2018: 121,316.4 m^2) were included in this section as water usage of our most offices in other regions has been counted in the management fee, thus their water usage data cannot be obtained.

Nevertheless, the Group actively promotes water efficient practices such as i) implementing a project in relation to install water meter to monitor water consumption amounts; and ii) periodic training for workers about saving and using water effectively in the factory; and iii) continue to implement the environmental management program, which reduces water wastage caused by human error and unintentional switching mistake.

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.3 The Environment and Natural Resources

For any possible incident that cause pollution to the environment, the Group has clarified the management responsibilities of each managerial post and taken measures to protect the local ecological environment and avoid the occurrence of environmental pollution and ecological damage on the affected sites as stipulated in COC and ESC. There is an emergency plan will be formulated once there is any accident of pollution. There is currently no significant impacts of activities on the environment and natural resources.

3. SOCIAL PERFORMANCE

3.1 Employment Policy and Compliance

Through the Group's many years of experience in the industry, the Group understands that its service quality and competitiveness are highly dependent on its employees; therefore, it offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains employees. The Group had a total number of around 7,700 staff in Hong Kong, Macau, the PRC, Vietnam etc. of which around 6,400 factory employees as of 31st December, 2019, in which 100% was working as full time staff.

During the reporting year, the employment distribution and annual turnover rate are as below:–

3.1.1 Total workforce by age group

Employee's Age Distribution

Age	**18-25**	**26-35**	**36-45**	**46-55**	**56 and above**
2019					
Number of employees	1,200	2,200	2,100	900	10
2018					
Number of employees	1,900	2,700	2,200	800	10

3.1.2 Annual Turnover Rate

Annual Turnover Rate

Age	**18-25**	**26-35**	**36-45**	**46-55**	**56 and above**
2019					
Percentage of turnover	62.03%	27.99%	8.3%	1.68%	0.0%
2018					
Percentage of turnover	67.7%	26.1%	5.5%	0.7%	0.0%

Salaries are reviewed and adjusted based on performance appraisals and the market trend.

3. SOCIAL PERFORMANCE (Continued)

3.1 Employment Policy and Compliance (Continued)

Employees in the Group are entitled to year-end bonus, mandatory provident fund, medical insurance, various types of paid leave in addition to annual leave, sick leave and maternity leave, etc.

The Group regularly reviews factory employee handbook which outlines the Group's key messages, policies, procedures, promotion channel, compensation and benefits, occupational health and safety and complaint.

3.2 Health and Safety Policy and Compliance

Due to the industrial business nature, recruitment and staff retention has continued to be a challenge in the reporting period. The Group commits to ensure safe and healthy working environment for factory employees and to inspire and strengthens workforce regardless of their age, gender and ethnical backgrounds. With the aging population being a long-term demographic trend, the Group still has a sustainable workforce in this perspective.

The Group regularly reviews the factory employees' health and safety procedure to safeguard factory employees' well-being. Briefing, training, news and tips are provided to factory employee to raise their awareness and to refresh their knowledge and practices on using plant equipment.

3.2.1 Occupational Health and Safety Data

The occupational health and safety data is as below:–

Occupational Health and Safety Data

	2019	2018
Work related fatality	**0**	0
Work injury cases >3 days	**20**	36
Work injury cases <3 days	**9**	4

	2019	2018
Lost days due to work injury	**254**	674
Total Labour working days	**1,913,800**	2,346,500

3. SOCIAL PERFORMANCE (Continued)

3.2 Health and Safety Policy and Compliance (Continued)

3.2.2 Safety Measures

Safety precautions alert are continued to be communicated though briefings and guidelines to promote and enhance safety awareness and practices. The management will continue their effort in strengthening the Group's occupational health and safety performance.

3.3 Development and Training

Comprehensive professional training are provided to factory employees. All newly hired factory employees are required by policy to attend factory employee orientation and to familiarise with the Group's purpose, vision and aspiration, mission, core values, business goals and overview and how factory employee plays a vital role in the business.

Training's topics range from knowledge of product manufacturing, equipment procedure and refreshing courses, to management skills were included. Total of training hours are as follows:–

	2019	2018
Total Number of Factory employee	6,400	8,000
Total Training Hours	4 hours/employee	4 hours/employee

The Group actively engages and motivates factory employees through various communication channels. The regular factory employee updated on staff promotion, and corporate news and activities. The Group also organised annual dinner and festival-related celebration and to provide enhanced communication channels between senior management and general staff. The Group believes having better transparent governance and investing efforts, factory employees, is the key to success of a sustainable business.

3.4 Labour Standard

3.4.1 Child and forced labour

No child nor forced labour in the Group's operations in the reporting period. It is in compliance with the employment law, Vietnam in terms of employment management. The recruitment process is strictly abided by the guidelines of the Group's personnel department. Every job applicant is required to fill in their information in a recruitment questionnaire, which is checked by personnel department to ensure information's accuracy. This also allows the Group to hire suitable candidate in accordance with the job requirements and candidates' expectations.

3. SOCIAL PERFORMANCE (Continued)

3.5 Supply Chain Management

A strict tendering process is also in place to provide a fair and transparent platform for securing the best supplier for procurement of all equipment, products and services. The request for tender is included in the annual budgeting process and prepared by responsible departments which abide by the Group's quality assurance policy management program. Additional information such as testing report is used to evaluate the suppliers in order to have the best selected providers. The Group also monitors the overall performance of selected suppliers by conducting vendor audits with documented reports to substantiate the selection and on-going cooperation.

3.5.1 Number of Suppliers by Geographical Region

The Group has around 500 service and product suppliers such as Hong Kong, the PRC, and Vietnam.

3.5.2 Suppliers' Engagement

The Group maintains good relationship with its suppliers to ensure service stability and product quality. Suppliers are assessed and selected based on rational and clear criteria including production process, quality management system, regulatory requirement compliancy, operating capacity, sample availability for testing, packaging, and procedure, price, delivery assurance to ensure the best value for money services or products are procured.

3.6 Product Responsibility

To provide top quality products to customers, the Group carefully sourced its products and equipment with standardised procurement procedure and policies. The Group's comprehensive procurement management systems help screening out undesirable products in the aspects of raw materials and ingredients selection, and quality management system in factories, etc.

3.6.1 Products and Service Related Complaints

The Group has always been keen to maintain its good brand quality. During the reporting period, there was no significant complaint in product quality and delivery.

3.6.2 Protecting Intellectual Property Rights

The Group owned and registered numerous patents, trademarks and domain names as they are important to its brand and corporate image. The Group has complied with the intellectual property (the "IP") rights regulations. As at the date of this ESG report, there was not any material infringement of the IP rights and the Group is confident that all reasonable measures have been taken to prevent any infringement of its own IP rights and the IP rights of third parties.

3. SOCIAL PERFORMANCE (Continued)

3.6 Product Responsibility (Continued)

3.6.3 Quality Assurance Process

The Group is committed to provide innovative and high-quality products to customers and to ensure quality compliance. New equipment are procured to enhance their competitiveness. Considerable efforts are made on ensuring good quality products are provided.

3.6.4 Consumer Data Protection and Privacy Policies

The Group complies with the Personal Data Privacy Ordinance, all personal data collected from employees, customers and suppliers are kept confidential, the computers and servers are protected from access passwords. As stipulated in the Group's Code of Conduct on ethical policy, employees are instructed of their responsibility to ensure data is collected, used, maintained, managed, stored and handled properly and secured appropriately.

3.7 Anti-Corruption

The Group commits to manage all business without undue influence and has regarded honesty, integrity, and fairness as its core values. All directors and factory employees are required to strictly follow the Code of Conduct and Group's policy to prevent potential bribery, extortion and fraud.

3.7.1 Preventive Measures

The Group encourages whistleblowing whereas an employee or a third party could report any concern about suspected misconduct, malpractice or irregularity, and conflict of interest in strict confidence.

During the reporting period, communication was performed to ensure employees understand the Group's Code of Conduct and there were no related legal cases concluded against the Group.

3.8 Community Investment

This year marked our continuous effort on trade union movement in the society. The Group has been working closely with various stakeholders and community.

4. CONSIDERING THE FUTURE DIRECTION FROM THE GROUP

The Group will continue actively sourcing energy-saving appliances, equipment and materials with careful selection and review of suppliers and their origins. Opportunities to provide more training and development in terms of raising staff's awareness on environmental and social impacts from the business will also be considered. The review of resource use will be adapted to make the businesses more sustainable as well as having greater capability to attractive future talents.

5. REPORTING FRAMEWORK

Key Performance Index (the "KPI") Reference Table as below:–

KPI of the ESG Guide		Corresponding headings in this ESG report
A	Environmental Performance	2.
A1	Emissions Policy and Compliance	2.1.
A1.1	Types of Emissions	2.1.1.
A1.2	Greenhouse Gas Emissions	2.1.2.
A1.3	Hazardous Waste	2.1.4.
A1.4	Non-Hazardous Waste	2.1.4.
A1.5	Emission Mitigation	2.1.3.
A1.6	Hazardous and Non-hazardous Wastes Reduction	2.1.6.
A2	Use of Resources	2.2.
A2.1	Energy Consumption	2.2.1.
A2.2	Water Consumption	2.2.3.
A2.3	Energy Use Efficiency	2.2.1.
A2.4	Water Use Efficiency	2.2.3.
A2.5	Total Packaging Material Used for Finished Products	2.1.5.
A3	The Environment and Natural Resources	2.3.
A3.1	Impacts of Activities on the Environment and Natural Resources	2.3.

5. REPORTING FRAMEWORK (Continued)

Key Performance Index (the "KPI") Reference Table as below:– (Continued)

KPI of the ESG Guide		Corresponding headings in this ESG report
B	Social Performance	3.
B1	Employment Policy and Compliance	3.1.
B1.1	Total Workforce	3.1.1.
B1.2	Employee Turnover Rate	3.1.2.
B2	Health and Safety Policies and Compliance	3.2.
B2.1	Number and Rate of Work-related Fatalities	3.2.1.
B2.2	Lost Days Due to Work Injury	3.2.1.
B2.3	Occupational Health and Safety Measures	3.2.2.
B3	Development and Training Policies	3.3.
B3.1	Percentage of Employees Trained	3.3.
B3.2	Average Training Hours	3.3.
B4	Labour Standards	3.4.
B4.1	Avoid Child and Forced Labour	3.4.1.
B4.2	Steps Taken to Eliminate Child and Forced Labour	3.4.1.
B5	Supply Chain Management	3.5.
B5.1	Number of Suppliers by Geographical Region	3.5.1.
B5.2	Suppliers Engagement	3.5.2.
B6	Product Responsibility	3.6.
B6.1	Product Recall or Return	3.6.
B6.2	Products and Service Related Complaints	3.6.1.
B6.3	Protecting Intellectual Property Rights	3.6.2.
B6.4	Quality Assurance Process	3.6.3.
B6.5	Consumer Data Protection and Privacy Policies	3.6.4.
B7	Anticorruption Policies and Compliance	3.7.
B7.1	Number of Concluded Legal Cases Regarding Corrupt Practices	3.7.1.
B7.2	Preventive Measures and Whistle-blowing Procedures	3.7.1.
B8	Community Investment	3.8.
B8.1	Focus Areas of Contribution	3.8.
B8.2	Resources Contributed	3.8.

Report of the Directors

The Directors of the Company have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company for the year ended 31st December, 2019.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are manufacturing and trading of toys and lighting products. The activities of its principal subsidiaries are set out in Note 40 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in Note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 73.7% of the Group's turnover, with the largest customer accounted for approximately 46.8%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 22.8% of total purchases of the Group, with the largest supplier accounted for approximately 13.7%.

At no time during the year did any Director, any associate of a Director, or any shareholder, which to the knowledge of the Directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 63.

During the year, the Company has paid 2018 final dividend of HK5 cents per share and the Directors have declared 2019 interim dividend of HK5.5 cents per share. Both 2018 final dividend and 2019 interim dividend were paid by cash. The total cash dividend paid during the year was approximately HK$79,401,000.

The Directors now recommend the payment of a final dividend of HK3 cents per share amounting to approximately HK$22,686,000, to the shareholders on the register of members on 4th June, 2020 payable in cash. The remaining distribution reserves in the Company amounted to approximately HK$388,891,000.

DIVIDEND POLICY

The Board may propose the payment of dividends, if any, with respect to the Company's shares on a per Share basis. Any dividend for a financial year shall be subject to shareholders' approval. Under the Company Law and the Company Bye-Laws, all of the Company's shareholders have equal rights to dividends and distributions. The declaration of dividends is subject to the discretion of the Board, which the Company expects will take into account one or more of the factors when considering the payment of dividends as stated in the Corporate Governance Report in this report.

SHARE ISSUED IN THE YEAR

Details of the shares issued in the year ended 31st December, 2019 are set out in Note 22 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

DISTRIBUTION RESERVES

Distribution reserves of the Company at 31st December, 2019, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$411,577,000 (2018: HK$494,558,000).

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the book value of the underlying consolidated net tangible assets of subsidiaries acquired as a result of a group reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DEBENTURES/EQUITY LINKED AGREEMENTS

No debentures or equity linked agreements were issued during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

During the year, 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.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 158.

DIRECTORS

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

Executive Directors:

Cheng Yung Pun *(Chairman)*
Cheng King Cheung
Tsang Chung Wa
Tse Kam Wah
Yu Sui Chuen
Yip Hiu Har

Independent non-executive Directors:

Loke Yu alias Loke Hoi Lam
Mak Shiu Chung, Godfrey
Wan Hing Pui
Heng Victor Ja Wei

OTHER INFORMATION OF DIRECTORS

In the last three years, Dr. Loke Yu alias Loke Hoi Lam, independent non-executive Director ("INED") of the Company, was appointed as INED of the following companies whose shares are listed on the Stock Exchange: Hong Kong Resources Holdings Company Limited with effect from 31st May, 2017, Zhenro Properties Group Limited with effect from 16th January, 2018, TC Orient Lighting Holdings Limited with effect from 6th June, 2018 and TradeGo FinTech Limited with effect on 29th August, 2018.

Dr. Loke resigned as INED of the following companies whose shares are listed on the Stock Exchange: Kaisa Health Group Holdings Limited (formerly known as Mega Medical Technology Limited, Wing Tai Investment Holdings Limited and Wing Lee Holdings Limited) on 11th January, 2017, Winfair Investment Company Limited on 3rd April, 2018, Shenzhou Space Park Group Limited (formerly known as China Household Holdings Limited) on 6th August, 2018, Scud Group Limited on 27th September, 2018, China Beidahuang Industry Group Holdings Limited on 1st November, 2018, Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited) on 23rd March, 2020 and resigned as company secretary of Minth Group Limited, whose shares are listed on the Stock Exchange, with effect from 8th February, 2018.

In addition, in the last three years, Mr. Heng Victor Ja Wei, INED of the Company, was appointed as INED of Daohe Global Group Limited (a company listed on the Stock Exchange) with effect from 11th August, 2016; however, he has resigned on 11th January, 2017.

OTHER INFORMATION OF DIRECTORS (Continued)

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

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the ten (2018: eleven) Directors and one (2018: one) chief executive are as follows:

Name	Fees	Salary	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Cheng Yung Pun	–	1,118	–	1,118
Yu Sui Chuen	–	1,575	18	1,593
Tse Kam Wah	–	1,475	18	1,493
Tsang Chung Wa	–	1,180	18	1,198
Cheng King Cheung	–	1,833	91	1,924
Yip Hiu Har	–	1,274	18	1,292
Independent Non-executive Directors				
Loke Yu alias Loke Hoi Lam	100	–	–	100
Mak Shiu Chung, Godfrey	100	–	–	100
Wan Hing Pui	100	–	–	100
Heng Ja Wei, Victor	100	–	–	100
Chief Executive				
Chen Wei Qing ("Mr. Chen")	–	1,347	18	1,365
	400	9,802	181	10,383

DIRECTORS' SERVICE CONTRACTS

In accordance with clause 99 of the Bye-laws of the Company, Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Dr. Loke Yu alias Loke Hoi Lam and Mr. Tse Kam Wah, who have been longest in office since their last elections and will retire by rotation at the AGM.

The retiring have indicated that they will offer themselves to be eligible for re-election at the AGM. Separate resolution will be proposed at 2020 annual general meeting for the re-election of Dr. Loke Yu alias Loke Hoi Lam being INED for more than 9 years.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

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

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

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

Details of related party transactions during the year are set out in Note 39 to the consolidated financial statements.

Save as disclosed above, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company and directors' connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors have any interests in competing business to the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31st December, 2019, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

(a) Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of Director/ chief executive officer		Personal Interests	Family Interests	Corporate Interests *(Note)*	Other Interests	Total	% of the issued share capital of the Company
Cheng Yung Pun *(Director)*	Long position	–	–	548,573,569	–	548,573,569	72.54%
Cheng King Cheung *(Director)*	Long position	2,052,000	–	–	–	2,052,000	0.27%
Tsang Chung Wa *(Director)*	Long position	4,108,251	–	–	–	4,108,251	0.54%
Tse Kam Wah *(Director)*	Long position	4,200,000	–	–	–	4,200,000	0.56%
Yu Sui Chuen *(Director)*	Long position	340,000	–	–	–	340,000	0.04%
Yip Hiu Har *(Director)*	Long position	200,000	–	–	–	200,000	0.03%
Chen Wei Qing *(Chief Executive Officer)*	Long position	3,980,000	–	–	–	3,980,000	0.53%

Note:

The shares are held by Smart Forest Limited ("Smart Forest"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart forest is wholly owned by Mr. Cheng Yung Pun.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

(a) Long Positions in Ordinary Shares of the Company (Continued)

Share Option

		Number of underlying shares attached to the share options						
	Option type	Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of year	Exercise price HK$	Exercise period
Employees	2017a	–	24,000,000 *(Note 1)*	–	–	24,000,000	3.138	6th August 2017 to 6th August 2020
	2017b	–	2,600,000 *(Note 2)*	–	–	2,600,000	3.050	13th August 2017 to 13th August 2020
Total Employees		–	26,600,000	–	–	26,600,000		

Notes:

(1) The 24,000,000 underlying shares (representing approximately 3.17% of issued share capital of the Company) in respect of share options were granted on 8th May, 2017 pursuant to the Company's share option scheme.

(2) The 2,600,000 underlying shares (representing approximately 0.34% of issued share capital of the Company) in respect of share options were granted on 15th May, 2017 pursuant to the Company's share option scheme.

The closing prices of the Company's shares on 8th May, 2017 and 15th May, 2017, the dates of grant of the options type of 2017a and 2017b were HK$3.05 and HK$2.95 respectively.

Details of specific category of share options are as follows:

Option Type	Date of grant	Vesting period	Exercise period	Exercise price
2017a	8th May, 2017	90 days	6th August 2017 to 6th August 2020	HK$3.138
2017b	15th May, 2017	90 days	13th August 2017 to 13th August 2020	HK$3.050

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION (Continued)

(a) Long Positions in Ordinary Shares of the Company (Continued)

Share Option (Continued)

During the year ended 31st December, 2019, the options carry right to subscribe for a total of 26,600,000 shares had been granted on 8th May, 2017 and 15th May, 2017, respectively.

The fair value was calculated using the Binomial Option pricing model. The inputs into the model are as follows:

Option Type	2017a	2017b
Weighted average share price	HK$3.050	HK$2.950
Exercise price	HK$3.138	HK$3.050
Expected volatility	46.97%	46.57%
Expected life	3.2 years	3.2 years
Risk-free rate	0.94%	0.89%
Expected dividend yield	3.96%	3.97%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.

Because the Binomial Option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The fair value of services received under an equity-settled share-based payment arrangement is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). Details of the accounting policy for equity-settled shared-based payment transactions are set out in Note 3 of the Group's financial statements.

Save as disclosed above, none of the Directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any specified undertaking of the Company or any other associate corporation as at 31st December, 2019.

ARRANGEMENTS TO PURCHASE SHARES AND DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and/or Short Positions in Shares, Underlying shares and Debentures of the Company or any specified undertaking of the Company or any other associated corporation", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, was a party to any arrangements to enable the directors of the Company and their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

(a) Long Positions in Ordinary Shares of the Company

Ordinary Shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Smart Forest *(Note 1)*	Beneficial owner	548,573,569	72.54%

Note:

(1) Smart Forest, a company incorporated in the British Virgin Island which is wholly owned by Mr. Cheng Yung Pun, director of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2019.

SHARE OPTION SCHEME

The key terms of the share option scheme of the Company adopted on 4th May, 2012 (the "2012 Share Option Scheme") are summarised herein below:

(i) The purpose of the 2012 Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries;

(ii) The eligible participants of the 2012 Share Option Scheme include any full-time employees, executives or officers, directors of the Company or any of the subsidiaries and any suppliers, consultants, agents or advisers who have contributed to the Group;

(iii) As at 31st December, 2019, the total number of shares available for issue of option under the 2012 Share Option Scheme was 45,264,731 shares (after the 2012 Share Option Scheme adopted on 2012 annual general meeting held on 4th May, 2012 and grant of share options), which representing 6.00% of the issued share capital of the Company;

SHARE OPTION SCHEME (Continued)

(iv) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the Shares in issue ("2012 Scheme Limit") as at the date approving the adoption of 2012 Share Option Scheme in the 2012 AGM. Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit, unless approval from the Company's shareholders has been obtained for refreshing the 2012 Scheme Limit provided that such limit as refreshed shall not exceed 10% of the Shares in issue as at the date of such shareholders' approval. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options may be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded;

(v) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and any other share option scheme(s) of the Company (including both exercised and outstanding options) to each Eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such eligible participant and his associates abstaining from voting. Any grant of options to a substantial Shareholder (as defined in the Listing Rules) of the Company or any the independent non-executive Director or their respective associates which result in the number of Shares issued and to be issued upon exercise of options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under this Scheme and the other schemes in the 12-month period up to and including the date of offer of such grant (a) representing in aggregate over 0.1% of the Shares in issue on the date of offer; and (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on each date of offer, in excess of HK$5 million, such further grant of options shall be subject to the approval of the Shareholders of the Company in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting;

(vi) There is no general requirement that an option must be held for any minimum share period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the 2012 Share Option Scheme can be exercised. There is no specific performance targets stipulated under the terms of the 2012 Share Option Scheme;

(vii) An offer for the grant of options must be accepted within 28 days after the option is offered to the relevant Grantee. The amount payable to the Company on acceptance of the offer of the grant of an option is HK$1.00 which is non-refundable;

SHARE OPTION SCHEME (Continued)

(viii) The subscription price payable upon exercising any particular option granted under the Scheme is determined based on a formula: P = N x Ep, where "P" is the subscription price; "N" is the number of shares to be subscribed; and "Ep" is the exercise price for a Share in respect of any particular option granted under the 2012 Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the 5 Business Days immediately preceding the date of offer; and (c) the nominal value of a Share, and as adjusted pursuant to the clauses of the 2012 Share Option Scheme; and

(ix) The life of the Scheme is until the tenth anniversary of the adoption date of the Scheme.

During the year under review, options which have been granted and carry rights to subscribe for 26,600,000 shares, representing 3.52% (31st December, 2018: 3.52%) of the shares in issue at that date, remain outstanding. As at 31st December, 2019 and as at the latest practicable date prior to the issue of the annual report, no options have been exercised, cancelled or lapsed (31st December, 2018: nil share).

The details of the share options were disclosed in the Section "Directors' and Chief Executives' Interests and/or Short Positions in Shares, Underlying Shares and Debentures of the Company or any specified undertaking of the Company or any other associated corporation".

EMOLUMENT POLICY

A Remuneration Committee is set up 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 statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme is set out as "Share Option Scheme" above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has adopted a new corporate governance code (the "CG Code"), which is based on the principles set out in Appendix 14 (the "HKEx Code") to the Listing Rules on the Stock Exchange.

None of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the period under review, in compliance with the HKEx Code and CG Code except for the deviation from code provision A.4.1 that none of the existing non-executive directors of the Company is appointed for a specific term. However, as all the non-executive directors of the Company (including independent non-executive) are subject to retirement provision under the Company's Bye-laws, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the HKEx Code and CG Code as well.

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 at the latest practicable date prior to the issue of the annual report.

OTHER REQUIRED DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

The Company has received two revised facility letters with the same facility amount of the old facility, that is, in an aggregate not exceeding HK$70,000,000, provided to three indirect wholly-owned subsidiaries effective on 4th December, 2019 (the "revised facilities" which are subject to annual review). All these two revised facility letters' terms and conditions included, inter alia, a condition to the effect that Mr. Cheng Yung Pun (a controlling shareholder of the Company) should maintain not less than 51% of shareholding (whether directly or indirectly) of the Company. A breach of the above condition will constitute an event of default under the revised facilities. The Bank will discuss for remedy actions including obtaining waiver for the breach or seeking for any viable solutions or alternatives. Nevertheless, the revised facilities will be uncommitted lines and the Bank reserves the right to request repayment on demand.

AUDITOR

The consolidated financial statements for the year have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 8th April, 2020

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF MATRIX HOLDINGS LIMITED
美力時集團有限公司
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Matrix Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 157, which comprise the consolidated statement of financial position as at 31st 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 31st December, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill of distribution of toys	
We identified impairment assessment of goodwill arising from acquisition of business in relation to distribution of toys in prior year as a key audit matter due to significant judgments and assumptions in determining the recoverable amount of cash-generating units ("CGU") to which goodwill has been allocated. As disclosed in Notes 4 and 17 to the consolidated financial statements, as at 31st December, 2019, the Group had goodwill of HK$96,822,000 relating to the acquisition of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group") in 2007. Funrise Group is engaged mainly in the wholesale distribution and importation of toys and sales of accessories connected with its products ranges in the United States of America. The management has performed annual impairment assessment on goodwill allocated to the CGU by assessing the recoverable amount which was determined based on the value in use calculation. In estimating the value in use of the CGU, key assumptions used by the management included discount rate and future revenue growth.	Our procedures in relation to the impairment of goodwill of distribution of toys included: • Evaluating the valuation methodology and assessing the reasonableness of key assumptions in relation to the management's impairment assessment; • Evaluating the historical accuracy of cash flow forecast by comparing them to the actual result of this CGU in the current year; • Assessing the key factors in determining the discount rate, including the Group's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in similar industry for reasonableness; and • Evaluating the reasonableness of and re-performing the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use.

OTHER INFORMATION

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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.

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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 the independent auditor's report is Wong Wang Hei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8th April, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**1,316,101**	1,353,665
Cost of sales		**(847,596)**	(887,877)
Gross profit		**468,505**	465,788
Other income	6	**25,577**	4,328
Other gains and losses	7	**81,023**	(9,491)
Impairment losses on intangible assets	17	**(10,966)**	–
Distribution and selling costs		**(200,722)**	(152,950)
Administrative and other expenses		**(183,550)**	(148,946)
Research and development costs		**(26,676)**	(23,969)
Operating profit		**153,191**	134,760
Finance costs	8	**(5,868)**	(8,525)
Profit before income tax	9	**147,323**	126,235
Income tax (expense) credit	11	**(7,828)**	1,874
Profit for the year		**139,495**	128,109
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(2,814)**	6,620
Total comprehensive income for the year, net of tax		**136,681**	134,729
Profit (loss) for the year attributable to:			
Owners of the Company		**143,001**	134,960
Non-controlling interests		**(3,506)**	(6,851)
		139,495	128,109
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**140,187**	141,580
Non-controlling interests		**(3,506)**	(6,851)
		136,681	134,729
Earnings per share attributable to owners of the Company for the year (expressed in HK cents per share)			
Basic earnings per share	13	**19**	18
Diluted earnings per share	13	**19**	18

Consolidated Statement of Financial Position

At 31st December, 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**177,248**	171,255
Leasehold land and land use rights	16	**–**	11,873
Intangible assets	17	**118,720**	163,501
Deferred tax assets	24	**24,398**	24,578
Deposits paid	20	**25,711**	56,856
Right-of-use assets	15	**275,137**	–
Other non-current assets	18	**–**	186,000
		621,214	614,063
Current assets			
Inventories	19	**302,972**	349,776
Trade and other receivables and prepayments	20	**374,699**	301,794
Tax receivable		**206**	2,831
Cash and cash equivalents	21	**133,832**	294,066
		811,709	948,467
Total assets		**1,432,923**	1,562,530
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	22	**75,620**	75,620
Reserves	23	**1,069,346**	1,008,560
Equity attributable to owners of the Company		**1,144,966**	1,084,180
Non-controlling interests		**(3,146)**	360
Total equity		**1,141,820**	1,084,540

	Notes	2019 HK$'000	2018 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	24	**917**	1,352
Lease liabilities	26	**66,663**	–
		67,580	1,352
Current liabilities			
Trade and other payables and accruals	27	**165,579**	171,920
Contract liabilities	28	**13,036**	3,664
Tax payables		**8,475**	7,635
Bank borrowings	29	**23,030**	36,502
Loan from third parties	30	**–**	256,556
Obligations under finance leases	25	**–**	361
Lease liabilities	26	**13,403**	–
		223,523	476,638
Total liabilities		**291,103**	477,990
Total equity and liabilities		**1,432,923**	1,562,530

The consolidated financial statements on pages 63 to 157 were approved and authorised for issue by the Board of Directors on 8th April, 2020 and are signed on its behalf by:

Cheng Yung Pun
DIRECTOR

Yu Sui Chuen
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31st December, 2019

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 *(Note 23)*	Share options reserve HK$'000	Other reserves HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1st January, 2019	75,620	189,090	21,028	21,433	(150)	(45,388)	822,547	1,084,180	360	1,084,540
Comprehensive income (expense)										
Profit (loss) for the year	–	–	–	–	–	–	143,001	143,001	(3,506)	139,495
Other comprehensive expense										
Currency translation differences	–	–	–	–	–	(2,814)	–	(2,814)	–	(2,814)
Total other comprehensive expense, net of tax	–	–	–	–	–	(2,814)	–	(2,814)	–	(2,814)
Total comprehensive (expense) income	–	–	–	–	–	(2,814)	143,001	140,187	(3,506)	136,681
Total contributions by and distributions to owners of the Company, recognised directly in equity										
Dividends paid (Note 12)	–	–	–	–	–	–	(79,401)	(79,401)	–	(79,401)
	–	–	–	–	–	–	(79,401)	(79,401)	–	(79,401)
Balance at 31st December, 2019	75,620	189,090	21,028	21,433	(150)	(48,202)	886,147	1,144,966	(3,146)	1,141,820

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 *(Note 23)*	Share options reserve HK$'000	Other reserves HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1st January, 2018	75,620	189,090	21,028	21,433	(150)	(52,008)	763,207	1,018,220	7,211	1,025,431
Comprehensive income (expense)										
Profit (loss) for the year	–	–	–	–	–	–	134,960	134,960	(6,851)	128,109
Other comprehensive income										
Currency translation differences	–	–	–	–	–	6,620	–	6,620	–	6,620
Total other comprehensive income, net of tax	–	–	–	–	–	6,620	–	6,620	–	6,620
Total comprehensive income (expense)	–	–	–	–	–	6,620	134,960	141,580	(6,851)	134,729
Total contributions by and distributions to owners of the Company, recognised directly in equity										
Dividends paid (Note 12)	–	–	–	–	–	–	(75,620)	(75,620)	–	(75,620)
	–	–	–	–	–	–	(75,620)	(75,620)	–	(75,620)
Balance at 31st December, 2018	75,620	189,090	21,028	21,433	(150)	(45,388)	822,547	1,084,180	360	1,084,540

Consolidated Statement of Cash Flows

For the year ended 31st December, 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit before income tax	**147,323**	126,235
Adjustments for:		
Loss on disposal of property, plant and equipment	**1,177**	1,966
Interest income	**(4,191)**	(3,976)
Interest expenses	**5,868**	8,525
Impairment losses on intangible assets	**10,966**	–
Depreciation of property, plant and equipment	**39,151**	42,286
Depreciation of right-of-use assets	**23,153**	–
Amortisation of leasehold land and land use rights	**–**	481
Amortisation of intangible assets	**58,285**	1,226
Gain on derecognition of non-current assets	**(85,301)**	–
Net remeasurement of loss allowance for trade receivables	**(1,069)**	12,401
Operating cash flows before movements in working capital	**195,362**	189,144
Decrease (increase) in inventories	**48,277**	(16,362)
(Increase) decrease in deposits paid, trade and other receivables and prepayments	**(69,906)**	39,429
Decrease in trade and other payables and accruals	**(5,928)**	(10,243)
Increase (decrease) in contract liabilities	**9,372**	(34,075)
Cash generated from operations	**177,177**	167,893
Income taxes paid	**(7,745)**	(8,841)
Income taxes refunded	**3,148**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES	**172,580**	159,052
INVESTING ACTIVITIES		
Interest received	**4,191**	3,976
Payments of right-of-use assets	**(143,417)**	–
Proceeds from disposals of property, plant and equipment	**1,450**	9,190
Deposits paid for lands	**(9,289)**	(11,012)
Deposits paid for acquisition of a subsidiary	**–**	(37,916)
Purchases of and deposits paid for property, plant and equipment	**(50,733)**	(16,895)
Addition of intangible assets	**(19,129)**	(44,855)
NET CASH USED IN INVESTING ACTIVITIES	**(216,927)**	(97,512)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2019

	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES		
Interest paid	**(5,868)**	(1,858)
Dividends paid	**(79,401)**	(75,620)
New loan from third parties	**–**	256,556
New bank borrowings raised	**128,289**	121,999
Repayments of bank borrowings	**(141,583)**	(139,505)
Repayment of lease liabilities/obligations under finance leases	**(17,130)**	(2,813)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(115,693)**	158,759
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(160,040)**	220,299
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**294,066**	74,284
Effect of foreign exchange rate changes	**(194)**	(517)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**133,832**	294,066

1. GENERAL INFORMATION

Matrix Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and trading of toys and lighting products. The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in Note 40.

The Company is an exempted limited liability company incorporated in Bermuda. The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

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

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

HKFRS 16 "Leases" ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Definition of a lease

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st January, 2019.

As at 1st January, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. 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 and termination options.

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

HKFRS 16 "Leases" ("HKFRS 16") (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the relevant group entities is range from 2.5% to 7.0%.

	At 1st January, 2019 HK$'000
Operating lease commitments disclosed as at 31st December, 2018	84,637
Less: Recognition exemption – short-term leases	(860)
	83,777
Lease liabilities discounted at relevant incremental borrowing rates	(33,158)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	50,619
Add: Obligations under finance leases recognised at 31st December, 2018	361
Lease liabilities as at 1st January, 2019	50,980
Analysed as:	
Current	17,365
Non-current	33,615
	50,980

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

HKFRS 16 "Leases" ("HKFRS 16") (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1st January, 2019 comprises the following:

	Notes	**Right-of-use assets HK$'000**
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**50,619**
Reclassified from leasehold land and land use rights	*(a)*	**11,873**
Assets previously under finance leases included in property, plant and equipment under HKAS 17	*(b)*	**286**
		62,778
By class:		
Leasehold land and land use rights		**11,873**
Land and buildings		**48,126**
Office equipment		**2,779**
		62,778

Notes:

(a) Upfront payments for leasehold land in the PRC were classified as leasehold land and land use rights as at 31st December, 2018. Upon application of HKFRS 16, the leasehold land and land use rights amounting to HK$11,873,000 was reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1st January, 2019 amounting to HK$286,000 as right-of-use assets.

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

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

HKFRS 16 "Leases" ("HKFRS 16") (Continued)

As a lessee (Continued)

	Notes	Carrying amounts previously reported at 31st December, 2018 HK$'000	Reclassification HK$'000	**Carrying amounts under HKFRS 16 at 1st January, 2019 HK$'000**
Non-current Assets				
Property, plant and equipment	*(b)*	171,255	(286)	**170,969**
Leasehold land and land use rights	*(a)*	11,873	(11,873)	**–**
Right-of-use assets		–	62,778	**62,778**
Current Liabilities				
Lease liabilities		–	(17,365)	**(17,365)**
Obligation under finance leases		(361)	361	**–**
Non-current Liabilities				
Lease liabilities		–	(33,615)	**(33,615)**

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

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

New and amendments to HKFRSs in issue but not yet effective

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

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

1 *Effective for annual periods beginning on or after 1st January, 2021.*

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

3 *Effective for annual periods beginning on or after a date to be determined.*

4 *Effective for annual periods beginning on or after 1st January, 2020.*

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

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

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

Amendments to HKFRS 3 "Definition of a Business"

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1st January, 2020, with early application permitted. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

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

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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

Amendments to HKAS 1 and HKAS 8 "Definition of Material" (Continued)

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1st January, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers ("CODM"), who are responsible for allocating resources and assessing performance of the operating segments, have been identified collectively as the executive directors of the Company (the "Executive Directors") who make strategic decisions.

Foreign currency translation

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 HK$, which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the date of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

All other foreign exchange gains or losses are presented in the profit or loss within 'other gains and losses'.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the 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 for each profit or loss are translated at average exchange rates (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 rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

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

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

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

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 2)

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

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

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

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases is recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability; and

- any initial direct costs incurred by the Group.

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

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.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

Lease liabilities

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

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

Lease liabilities (Continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (prior to 1st January, 2019)

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy above).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repair and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "leasehold land and land use rights" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Property, plant and equipment commence depreciation from the time the assets become available for their intended use. Depreciation is calculated using the straight-line method to allocate their cost to their residual values, where appropriate, over their estimated useful lives, as follows:

Buildings	25 – 50 years or over the lease term, if shorter
Leasehold improvements	10 years or over the lease term, if shorter
Plant and machinery	5 – 10 years
Moulds	3 – 10 years
Others	3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing net proceeds with carrying amount of the relevant assets and are included in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill, and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit ("CGU") or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Customer base

Definite-lived intangible assets including customer base are acquired in a business combination, recognised at its fair value at the acquisition date, and are being amortised over the estimated useful lives using the straight-line method. The estimated useful life of the customer base is 6 years.

Patents

Patents with definite useful lives are acquired from third parties and are recognised at costs less accumulated amortisation and any accumulated impairment losses. They are being amortised over the estimated useful lives using the straight-line method. The estimated useful lives of the patents are 7 – 18 years.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Trademark

Trademark with indefinite useful life is acquired from third parties and is recognised at cost less any accumulated impairment loss.

TV programs/TV programs under production

TV programs represents certain costs in connection with the development, production and distribution of a children's animated television series which the original characters will be used in toys markets. TV programs are stated at cost less accumulated amortisation and any impairment losses. TV programs, less estimated residual value and accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues. Cost of TV programs, accounted for on a project-by-project basis, includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of TV program.

TV programs under production include production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of TV programs. Upon completion and release, the TV programs under production are reclassified as TV program products. TV programs under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses.

An impairment loss is made if there has been a change in the estimates used to determine the recoverable amount and the carrying amount exceeds the recoverable amount.

Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill (Continued)

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected to be in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 while other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other non-current assets

Other non-current assets are initially recognised at its fair value and subsequently carries at cost less impairment.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash at bank and in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are classified as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings 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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Effective 1st 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. 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.

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

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current and deferred income tax (Continued)

Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Offsetting

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

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

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

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

Bonus plans

Provisions for bonus plans due wholly within 12 months after the end of the reporting period are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension obligations

The Group maintains a number of defined contribution plans in the countries in which it operates. The assets of the retirement benefit are generally held in separate trustees-administered funds or insurance companies. The retirement plans are generally funded by payments from employees and by the Group.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based compensations

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for share options of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and years of service of employees).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the profit or loss.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the consolidated and the Company's statement of financial position in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, cash and cash equivalents at amortised cost) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivables are assessed individually for debtors with significant balances and collectively using a provision matrix for the remaining balances based on its historical observed default rates which is adjusted for forward-looking estimates.

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

(i) Significant increase in credit risk

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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.

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(iii) 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:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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 continues to recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities, including trade and other payables, bank borrowings, loan from third parties and lease liabilities, are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimated impairment of goodwill, trademark, patents, TV programs/TV programs under production and other non-current assets

The Group tests annually whether goodwill and trademark with indefinite useful life has suffered any impairment (Note 17). Other non-financial assets including property, plant and equipment, right-of-use assets and other amortisable intangible assets (including patents and TV programs/TV programs under production) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations require the use of judgments and estimates.

Determining whether goodwill and trademark are impaired requires an estimation of the recoverable amount which is the higher of fair value less costs to sell and value in use of the CGUs to which goodwill and trademark have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. When the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2019, the carrying amount of goodwill of CGU A and CGU B (as defined in Note 17) and trademark were HK$96,822,000, HK$4,415,000 (2018: HK$96,822,000, HK$4,274,000) and HK$10,164,000 (2018: HK$9,841,000) respectively. Details of the recoverable amount are disclosed in Note 17.

TV programs under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses. TV programs are stated at cost less accumulated amortisation and any impairment losses. TV programs, less estimated residual value and accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues. Additional amortisation/impairment is made if estimated projected revenues are adversely different from the previous estimation.

Patents are stated at costs less accumulated amortization and any impairment losses. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation. 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Estimated impairment of goodwill, trademark, patents, TV programs/TV programs under production and other non-current assets (Continued)

As at 31st December, 2019, the carrying amounts of patents are HK$258,000 (2018: HK$7,709,000) respectively, after taking into account the impairment losses of HK$10,966,000 (2018: nil) that have been recognised during the year. Details of the impairment of patents are disclosed in Note 17.

These estimated projected revenues can change significantly due to a variety of factors. Based on information available on the actual results of TV programs, management reviews and revises the estimated projected revenues and related cash flows at least at the end of each reporting period. Any change in revenue estimations may result in a change in the rate of amortisation and/or the impairment of the carrying amounts of the assets to their recoverable amounts. This could have a significant impact on the Group's financial performance. As at 31st December, 2019, the carrying amounts of TV programs/ TV programs under production was HK$7,061,000 (2018: HK$44,855,000) with no impairment loss recognised. Details of the recoverable amount are disclosed in Note 17.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs of sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow forecast including whether these cash flow forecast are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow forecast, it may be necessary to take an impairment charge to the consolidated profit or loss.

As further detailed in Note 18, the Group's other non-current assets represent certain residential properties expected to be received in 2020 as part of the consideration from the disposal of an indirectly wholly owned subsidiary in July 2015. The right to receive the residential properties is related to the redevelopment project to transform the industrial area into residential area and the delivery of the residential properties that will take place afterwards. The impairment assessment on the recoverability of the assets is based on the status of the development of the redevelopment project and the latest expected market value of the residential properties upon completion. Such assessment requires significant judgment. As at 31st December, 2018, the carrying amount of other non-current assets was HK$186,000,000 with no impairment loss recognised. During the year ended 31st December, 2019, the right to purchase for the residential properties is transferred and resulted in gain on derecognition of non-current assets of HK$85,301,000 recognised in profit or loss.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Impairment of financial assets

The loss allowance for financial assets are based on assumptions about risk of default and estimated loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical credit loss experience as well as forward looking information at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 37.

Useful lives, residual values and depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods. As at 31st December, 2019, the carrying amount of property, plant and equipment was HK$177,248,000 (2018: HK$171,255,000).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preference and competitor actions in response to several industry cycles. Management reassesses these estimates at the end of each reporting period. As at 31st December, 2019, the carrying amount of inventories was HK$302,972,000 (2018: HK$349,776,000).

Current and deferred income taxes

The Group is subject to income taxes in Hong Kong, the People's Republic of China (the "PRC"), the United States, Vietnam and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such as differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Current and deferred income taxes (Continued)

Deferred income tax assets relating to temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimate, such differences will impact the recognition of deferred income tax assets and liabilities and taxation charges in the period in which such estimates have been changed. As at 31st December, 2019, the carrying asset of deferred tax assets was HK$24,398,000 (2018: HK$24,578,000) and deferred tax liabilities was HK$917,000 (2018: HK$1,352,000).

Consolidation of a subsidiary

In October 1999, there was a court judgment in connection with a claim made by a trade creditor. The Group's legal ownership of an indirect wholly owned subsidiary of the Company may be affected by the court judgment. The directors of the Company, based on independent legal advice, are of the opinion that the aforesaid judgment will have no material impact on Group's control in the subsidiary. Accordingly, the subsidiary continues to be treated as an indirectly held subsidiary of the Company and the financial results of this subsidiary are included in the consolidated financial statements.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold by the Group to outside customers less discount, rebates, taxes and returns.

i. Disaggregation of revenue from contracts with customers

Segments	**2019** **HK$'000**	2018 HK$'000
Types of goods		
Manufacturing and trading of toys	**1,248,467**	1,273,000
Manufacturing and trading of lighting products	**67,634**	80,665
Total	**1,316,101**	1,353,665
Timing of revenue recognition		
At a point in time	**1,316,101**	1,353,665

The revenue disaggregated by geographic markets is detailed below.

5. REVENUE AND SEGMENT INFORMATION (Continued)

ii. Performance obligations for contracts with customers

The Group is engaged in the toy manufacturing business for international brand customers and lighting products manufacturing directly to consumers or through sub-distributors on wholesale and trade basis.

For sales of toys and lighting products to international brand customers and the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location. Performance obligations are satisfied at a point in time once control of the goods has been transferred to the customers and the customers have obtained control on the goods through their ability to direct other use of and obtain substantially all the benefits from the goods. Payment of the transaction price is due immediately at the point the customers purchase the goods.

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bear the risks of obsolescence and loss in relation to the goods. The normal credit term is 14 to 90 days upon delivery.

The CODM have been identified as the Executive Directors. Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the CODM in order to assess performance and allocate resources. The CODM assess the performance of the reportable segments based on the profit and loss generated.

The Group's operating segments under HKFRS 8 are the United States, Europe, Mexico, Canada, South America, Australia and New Zealand and other locations based on the geographical location of customers.

The CODM assess the performance of the operating segments based on segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Assets of reportable segments exclude property, plant and equipment, right-of-use assets, intangible assets, deferred income tax assets and other corporate assets, all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, bank borrowings and other corporate liabilities. These are part of the reconciliation to total assets and liabilities of the consolidated statement of financial position.

5. REVENUE AND SEGMENT INFORMATION (Continued)

ii. Performance obligations for contracts with customers (Continued)

The revenue from external parties, assets and liabilities, reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

There are two main businesses of the Group, including toys and lighting business. CODM do not consider the lighting business as a separate segment for both years as it is not material to the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment based on the geographic location of customers:

For the year ended 31st December, 2019

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Unallocated HK$'000	Consolidated HK$'000
REVENUE									
External sales	1,057,047	113,303	10,190	70,047	14,020	38,107	13,387	–	1,316,101
RESULTS									
Segment profit	205,169	7,567	204	5,598	2,143	1,891	943	–	223,515
Unallocated income, gains and losses									91,993
Unallocated expenses									(162,317)
Finance costs									(5,868)
Profit before income tax									147,323
Other segment information:									
Depreciation and amortisation	91,977	9,064	1,138	7,736	1,566	4,166	1,460	3,482	120,589
Impairment losses on intangible assets	–	–	–	–	–	–	–	10,966	10,966

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31st December, 2018

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Unallocated HK$'000	Consolidated HK$'000
REVENUE									
External sales	1,151,698	99,344	5,151	57,085	8,550	24,856	6,981	–	1,353,665
RESULTS									
Segment profit (loss)	250,665	(12,311)	(762)	4,879	1,499	812	535	–	245,317
Unallocated income, gains and losses									4,030
Unallocated expenses									(114,587)
Finance costs									(8,525)
Profit before income tax									126,235
Other segment information:									
Depreciation and amortisation	37,020	2,184	46	367	77	116	59	4,124	43,993

Segment profit (loss) represents the profit (loss) before income tax earned by each segment without allocation of certain income, other gains and losses, central administration costs and finance costs. This is the measure reported to the CODM, for the purposes of resource allocation and performance assessment.

Segments assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment based on the geographical location of customers:

As at 31st December, 2019

	The United States HK$'000	**Europe HK$'000**	**Mexico HK$'000**	**Canada HK$'000**	**South America HK$'000**	**Australia and New Zealand HK$'000**	**Other locations HK$'000** ***(Note)***	**Consolidated HK$'000**
ASSETS								
Segment assets	**444,382**	**63,071**	**5,359**	**41,427**	**7,117**	**27,694**	**114,332**	**703,382**
Property, plant and equipment								**177,248**
Right-of-use assets								**275,137**
Unallocated and other corporate assets								**277,156**
Total assets								**1,432,923**
LIABILITIES								
Segment liabilities	**70,718**	**19,792**	**538**	**3,674**	**735**	**3,487**	**28,614**	**127,558**
Lease liabilities								**80,066**
Unallocated and other corporate liabilities								**83,479**
Total liabilities								**291,103**

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segments assets and liabilities (Continued)

As at 31st December, 2018

	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Other locations HK$'000 *(Note)*	Consolidated HK$'000
ASSETS								
Segment assets	485,127	50,029	3,177	34,896	5,227	17,634	112,336	708,426
Property, plant and equipment								171,255
Leasehold land and land use rights								11,873
Unallocated and other corporate assets								670,976
Total assets								1,562,530
LIABILITIES								
Segment liabilities	87,170	26,089	341	3,783	567	1,898	270,607	390,455
Unallocated and other corporate liabilities								87,535
Total liabilities								477,990

Note: Other locations include the PRC, Hong Kong, Taiwan, Korea, other countries in Asia Pacific and others. These locations are considered by the CODM as one operating segment.

For the purposes of monitoring segment performances and allocating resources amongst segments, only inventories, trade receivables and certain other receivables are allocated to segment assets, and only trade payables and certain other payables and accruals are allocated to segment liabilities.

Other segment information

No analysis of capital expenditures is disclosed for both years as these items are neither included in segment assets nor segment results and are not reviewed by the CODM regularly.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in Hong Kong, Vietnam, the United States, the PRC, Europe and other countries.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	2019 HK$'000	2018 HK$'000
Hong Kong	**1,370**	2,443
Vietnam	**356,142**	167,064
The United States	**64,013**	10,219
The PRC	**44,749**	235,239
Europe	**10,697**	7,172
Other countries	**1,125**	3,847
	478,096	425,984

Note: Non-current assets excluded intangible assets and deferred tax assets.

Information about major customers

For the year ended 31st December, 2019, there are 2 customers (2018: 2 customers) in the United States with revenue amounted to HK$616,019,000 (2018: HK$799,869,000) and HK$219,781,000 (2018: HK$146,858,000), contributing to approximately 46.8% and 16.7% (2018: 59.1% and 10.8%), respectively, of the total revenue of the Group. There is no other single customer contributing over 10% of the total revenue of the Group.

6. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Interest income on bank deposits	**4,191**	3,976
Sales of scrap materials and samples	**2,168**	56
Broadcasting income	**14,438**	–
Rental income	**1,716**	–
Royalty income	**1,723**	–
Others	**1,341**	296
	25,577	4,328

7. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Loss on disposal of property, plant and equipment	**(1,177)**	(1,966)
Net exchange (loss) gain	**(4,170)**	4,876
Net measurement of loss allowance for trade receivables	**1,069**	(12,401)
Gain on derecognition of non-current assets	**85,301**	–
	81,023	(9,491)

8. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interests on:		
Bank borrowings	**1,599**	1,822
Loan from third parties	**1,583**	6,667
Finance leases	**–**	36
Lease liabilities	**2,686**	–
	5,868	8,525

9. PROFIT BEFORE INCOME TAX

	2019 HK$'000	2018 HK$'000
Profit before income tax has been arrived at after charging (crediting):		
Raw materials and consumables used	**440,200**	398,968
Changes in inventories of finished goods and work-in-progress	**(42,128)**	21,853
Employee benefit expense (Note 10)	**368,587**	409,742
Depreciation of property, plant and equipment (Note 14)	**39,151**	42,286
Depreciation of right-of-use assets (Note 15)	**23,153**	–
Short-term leases expenses	**7,962**	–
Operating lease expenses	**–**	25,499
Advertising costs	**45,074**	22,150
Auditor's remuneration		
– Audit services	**4,207**	3,650
– Non-audit services	**1,499**	1,557
Amortisation of leasehold land and land use rights (Note 16)	**–**	481
Amortisation of intangible assets (included in cost of sales) (Note 17)	**58,285**	1,226
Royalty expenses	**63,551**	40,119
Freight charges	**32,636**	24,182
Other expenses	**216,367**	222,029
	1,258,544	1,213,742
Representing:		
Cost of sales	**847,596**	887,877
Distribution and selling costs	**200,722**	152,950
Administrative and other expenses	**183,550**	148,946
Research and development costs	**26,676**	23,969
	1,258,544	1,213,742

10. EMPLOYEE BENEFIT EXPENSE

Employee benefits expense, including directors' emoluments, represents:

	2019	2018
	HK$'000	HK$'000
Wages, salaries and bonuses	**350,168**	392,744
Retirement benefits – defined contribution plans	**4,242**	6,085
Staff welfare	**14,177**	10,913
	368,587	409,742

Retirement benefits – defined contribution plans

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Ordinance. Both the Group's and the employees' contributions are subject to a cap of HK$1,500 per month.

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme.

The eligible employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute certain percentages of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees in Macau currently participate in a social security fund scheme operated by the local government. The contributions are fixed for domestic employees who meet certain eligibility requirements.

Eligible employees in Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentage of the employees' payroll.

There are defined contribution retirement plans established in the United States for all domestic employees who meet certain eligibility requirements as to age and length of service.

During the year ended 31st December, 2019, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK$4,242,000 (2018: HK$6,085,000). As at 31st December, 2019, the Group was not entitled to any forfeited contributions to reduce its future contributions (2018: nil).

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance, Companies (Disclosure of information about benefits of directors) Regulation and Listing Rules)

Directors' emoluments comprise payments by the Group to the executive directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The non-executive directors' emolument and independent non-executive directors' emoluments shown below were mainly for their services as directors of the Company. The remuneration of each director and the chief executive for the year ended 31st December, 2019 is set out below:

Name	Fee	Salary	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheng Yung Pun	–	1,118	–	1,118
Yu Sui Chuen	–	1,575	18	1,593
Tse Kam Wah	–	1,475	18	1,493
Tsang Chung Wa	–	1,180	18	1,198
Cheng King Cheung	–	1,833	91	1,924
Yip Hiu Har *(Note (iii))*	–	1,274	18	1,292
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam	100	–	–	100
Mak Shiu Chung, Godfrey	100	–	–	100
Wan Hing Pui	100	–	–	100
Heng Ja Wei, Victor	100	–	–	100
Chief Executive				
Chen Wei Qing ("Mr. Chen") *(Note (i))*	–	1,347	18	1,365
	400	9,802	181	10,383

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance, Companies (Disclosure of information about benefits of directors) Regulation and Listing Rules) (Continued)

Directors' emoluments comprise payments by the Group to the executive directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The non-executive directors' emolument and independent non-executive directors' emoluments shown below were mainly for their services as directors of the Company. The remuneration of each director and the chief executive for the year ended 31st December, 2018 is set out below:

Name	Fee	Salary	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Cheng Yung Pun	–	1,118	–	1,118
Yu Sui Chuen	–	1,585	18	1,603
Tse Kam Wah	–	1,475	18	1,493
Leung Hong Tai *(Note (ii))*	–	427	4	431
Tsang Chung Wa	–	1,180	18	1,198
Cheng King Cheung	–	1,875	91	1,966
Yip Hiu Har *(Note (iii))*	–	980	14	994
Independent non-executive directors				
Loke Yu alias Loke Hoi Lam	100	–	–	100
Mak Shiu Chung, Godfrey	100	–	–	100
Wan Hing Pui	100	–	–	100
Heng Ja Wei, Victor	100	–	–	100
Chief Executive				
Mr. Chen *(Note (i))*	–	1,350	18	1,368
	400	9,990	181	10,571

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance, Companies (Disclosure of information about benefits of directors) Regulation and Listing Rules) (Continued)

Notes:

(i) Mr. Chen is the chief executive of the Group and his remuneration disclosed above represents those for services rendered by him as the chief executive.

(ii) Mr. Leung Hong Tai has tendered to the Board his resignation as executive director of the Company in early March, 2018. His resignation was made effective from 1st April, 2018.

(iii) Ms. Yip Hiu Har has been appointed as executive director of the Company effective from 1st April, 2018.

(iv) No director or chief executive waived or agreed to waive any emoluments during the years ended 31st December, 2018 and 2019.

(v) No directors' retirement benefits were paid during the years ended 31st December, 2018 and 2019.

(vi) No directors' termination benefits were paid during the years ended 31st December 2019.

(vii) No consideration was provided to third parties for making available directors' services during the years ended 31st December, 2018 and 2019.

(viii) There were no loans, quasi-loans and other dealings entered into by the Company or its subsidiary undertaking as at 31st December, 2018 and 2019.

(ix) No 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2018: one) director whose emoluments are reflected in the analysis shown above. The emoluments payable to the remaining four (2018: four) individuals during the year are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries and allowances	**9,928**	9,118
Contributions to retirement benefit schemes and MPF Scheme	**368**	356
	10,296	9,474

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**2**	2
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
	4	4

For both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as a compensation for loss of office.

11. INCOME TAX EXPENSE (CREDIT)

	2019	2018
	HK$'000	HK$'000
Current tax:		
– Hong Kong	**2,137**	281
– Other jurisdictions	**6,639**	7,868
(Over)underprovisions in prior years:		
– Hong Kong	**(161)**	(321)
– Other jurisdictions	**(520)**	538
Deferred tax (Note 24)	**(267)**	(10,240)
	7,828	(1,874)

Notes:

(i) On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

(ii) Pursuant to the relevant Vietnam enterprise income tax rules and regulations, the applicable tax rates for subsidiaries operating in Vietnam range from 10% to 20% (2018: 10% to 20%) for the year.

(iii) The United States enterprise income tax rate for subsidiaries operating in the United States of America is 21% (2018: 21%) for the year.

11. INCOME TAX EXPENSE (CREDIT) (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019 HK$'000	2018 HK$'000
Profit before income tax	**147,323**	126,235
Tax calculated at the applicable domestic tax rate of respective companies *(Note)*	**3,968**	7,881
Tax effects of:		
– Income not taxable for tax purposes	**(26)**	(251)
– Expenses not deductible for tax purposes	**8,244**	6,693
– Profits which are exempted from tax or under tax concessions	**(26,298)**	(28,896)
– Tax losses for which no deferred income tax assets have been recognised	**23,004**	18,034
(Over)underprovisions in prior years	**(681)**	217
Others	**(383)**	(5,552)
	7,828	(1,874)

Note: The weighted average applicable tax rate was 2.7% (2018: 6.2%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

12. DIVIDENDS

The total dividends paid in 2019 and 2018 were HK$79,401,000 (HK10.5 cents per share) and HK$75,620,000 (HK10 cents per share), respectively. A final dividend in respect of the year ended 31st December, 2019 of HK3 cents (2018: HK5 cents) per share, amounting to approximately HK$22,686,000 (2018: HK$37,810,000), is to be proposed at the forthcoming annual general meeting. These consolidated financial statements do not reflect this dividend payable as the final dividend was proposed after the date of consolidated statement of financial position and will be accounted for in equity as an appropriation of retained profits in the year ending 31st December, 2019 when approved at the forthcoming annual general meeting.

12. DIVIDENDS (Continued)

	2019 **HK$'000**	2018 HK$'000
Paid		
Interim dividend paid HK5.5 cents (2018: HK5 cents) per ordinary share	**41,591**	37,810
Proposed		
Final dividend proposed HK3 cents (2018: HK5 cents) per ordinary share	**22,686**	37,810

13. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2019 **HK$'000**	2018 HK$'000
Earnings		
Profit attributable to owners of the Company	**143,001**	134,960
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**756,203**	756,203
Effect of dilutive ordinary shares		
Share options	**2,380**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**758,583**	756,203
	HK cents	HK cents
Basic earnings per share	**19**	18
Diluted earnings per share	**19**	18

The computation of diluted earnings per share for the year ended 31st December, 2018 did not assume the exercise of the Company's share options because the exercise price of these share options was higher than the average market price of the shares for 2018.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Construction in progress HK$'000	Others HK$'000 *(note)*	Total HK$'000
At 1st January, 2018							
Cost	108,076	37,609	193,234	144,192	11,253	51,137	545,501
Accumulated depreciation and impairment	(39,573)	(30,346)	(135,702)	(124,822)	–	(37,074)	(367,517)
Net book amount	68,503	7,263	57,532	19,370	11,253	14,063	177,984
Year ended 31st December, 2018							
Opening net book amount	68,503	7,263	57,532	19,370	11,253	14,063	177,984
Exchange adjustments	(816)	84	(1,089)	(164)	(219)	1,083	(1,121)
Additions	3,069	639	19,340	10,774	4,891	9,122	47,835
Transfer from construction in progress to buildings	14,413	–	–	–	(14,413)	–	–
Disposals	–	(9)	(10,419)	–	–	(729)	(11,157)
Depreciation *(Note 9)*	(4,883)	(2,562)	(17,359)	(10,578)	–	(6,904)	(42,286)
Closing net book amount	80,286	5,415	48,005	19,402	1,512	16,635	171,255
At 31st December, 2018							
Cost	131,292	24,713	193,448	154,700	1,512	36,061	541,726
Accumulated depreciation and impairment	(51,006)	(19,298)	(145,443)	(135,298)	–	(19,426)	(370,471)
Net book amount	80,286	5,415	48,005	19,402	1,512	16,635	171,255
Year ended 31st December, 2019							
Opening net book amount	80,286	5,415	48,005	19,402	1,512	16,635	171,255
Exchange adjustments	(257)	15	(178)	–	(8)	51	(377)
Additions	839	854	24,759	–	15,840	5,925	48,217
Transfer from construction in progress to buildings and plant and machinery	3,443	–	2,594	–	(6,037)	–	–
Disposals	–	(212)	(1,108)	–	–	(1,307)	(2,627)
Depreciation *(Note 9)*	(5,445)	(2,144)	(15,722)	(8,486)	–	(7,354)	(39,151)
Application of HKFRS 16	–	–	–	–	–	(69)	(69)
Closing net book amount	78,866	3,928	58,350	10,916	11,307	13,881	177,248
At 31st December, 2019							
Cost	135,130	24,871	217,676	154,699	11,307	38,525	582,208
Accumulated depreciation and impairment	(56,264)	(20,943)	(159,326)	(143,783)	–	(24,644)	(404,960)
Net book amount	78,866	3,928	58,350	10,916	11,307	13,881	177,248

Note: Others mainly represent tooling equipments, containers and motor vehicles.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation expense is analysed as follows:

	2019 HK$'000	2018 HK$'000
Cost of sales	**33,695**	35,882
Administrative expenses	**5,456**	6,404
	39,151	42,286

As at 31st December, 2019, buildings of approximately HK$25,093,000 (2018: HK$26,146,000) were frozen by Zhuhai Intermediate Court and Zhongshan Intermediate Court, respectively, (the "Court") in relation to a legal claim lodged by a third party (the "Plaintiff") against a subsidiary of the Company for a breach of a distribution agreement. Pursuant to the court judgment, the subsidiary was liable to pay the Plaintiff an amount of approximately HK$5,172,000. A full legal claim provision was made by the Group in prior years and HK$4,472,000 was paid by the Group in 2011. Based on independent legal advice in prior years, the directors are of the opinion that the land and building being frozen by the Court will be released upon the settlement of all the legal claim and do not have material impact on the financial position and operations of the Group.

As at 31st December, 2018, the net book amount of certain motor vehicles include an amount of approximately HK$286,000 in respect of assets held under finance lease. The net book amount of certain motor vehicles include an amount of approximately HK$69,000 was transferred to right-of-use assets during the year ended 31st December, 2019.

15. RIGHT-OF-USE ASSETS

	Leasehold land and land use rights HK$'000	Land and buildings HK$'000	Office equipment HK$'000	Total HK$'000
At 1st January 2019				
Carrying amount	11,873	48,126	2,779	62,778
At 31st December 2019				
Carrying amount	196,447	76,869	1,821	275,137
For the year ended 31st December 2019				
Depreciation charge	4,578	17,520	1,055	23,153
Total cash outflows for leases				19,816
Expense relating to short-term leases and other leases with lease terms and within 12 months of the date of initial application of HKFRS 16				7,962
Payments to right-of-use assets and short-term leases				151,379

For both years, the Group leases leasehold land and land use rights, land and buildings and office equipment for its operations. Lease contracts are entered into for fixed term of 2 to 50 years, but may have extension option as described below.

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.

The Group had certain short-term leases for offices and warehouse. As at 31st December, 2019, the portfolio of short-term leases committed is similar to the portfolio of short-term leases entered to which the short-term leases expenses disclosed in Note 9.

16. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights are analysed as follows:

	2018 HK$'000
At 1st January	12,354
Amortisation *(Note 9)*	(481)
At 31st December	11,873

17. INTANGIBLE ASSETS

	Goodwill HK$'000	Customer base HK$'000	Patents HK$'000	Trademark HK$'000	TV programs/ TV programs under production HK$'000	Total HK$'000
COST						
At 1st January, 2018	101,340	74,620	9,753	10,402	–	196,115
Exchange difference	(244)	–	–	(561)	–	(805)
Additions	–	–	–	–	44,855	44,855
At 31st December, 2018	101,096	74,620	9,753	9,841	44,855	240,165
Exchange difference	141	–	–	323	–	464
Additions	–	–	4,877	–	19,129	24,006
At 31st December, 2019	101,237	74,620	14,630	10,164	63,984	264,635
ACCUMULATED AMORTISATION AND IMPAIRMENT						
At 1st January, 2018	–	(74,620)	(818)	–	–	(75,438)
Amortisation *(Note 9)*	–	–	(1,226)	–	–	(1,226)
At 31st December, 2018	–	(74,620)	(2,044)	–	–	(76,664)
Amortisation *(Note 9)*	–	–	(1,362)	–	(56,923)	(58,285)
Impairment losses	–	–	(10,966)	–	–	(10,966)
At 31st December, 2019	–	(74,620)	(14,372)	–	(56,923)	(145,915)
CARRYING AMOUNT						
At 31st December, 2019	101,237	–	258	10,164	7,061	118,720
At 31st December, 2018	101,096	–	7,709	9,841	44,855	163,501

17. INTANGIBLE ASSETS (Continued)

The trademark acquired through a business combination during the year ended 31st December, 2017 has a legal life of 10 years but is renewable every 10 years at a minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by the management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

TV programs under production represent the development, production and distribution of a children's animated television series which the Group embarked on a joint project with an entertainment company. In September 2018, the Group entered into an asset purchase agreement with the entertainment company to buy out all its rights and assume all its liabilities within the project. TV programs under production are stated at cost less accumulated amortisation and identified impairment loss. Costs of the production comprise fees paid and payable under agreements, and direct costs/expenses incurred during the production of the program. As at 31st December, 2019, the cost of TV programs/TV programs under production with amount of approximately HK$63,984,000 (2018: HK$44,855,000) was recognised and amortisation of HK$56,923,000 is recognised based on the revenue earned (2018: no amortisation as the production was in progress and no revenues were earned). TV programs under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses. TV programs, less estimated residual value and accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to total estimated projected revenues.

17. INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill of distribution of toys

Goodwill of HK$96,822,000 (2018: HK$96,822,000) is mainly allocated to the Group's cash-generating unit in the distribution of toys in the United States market related to the acquisition of Funrise Holdings, LLC, Funrise, Inc. and Code 3 Collectibles LLC (together referred to as "Funrise Group") in 2007 ("CGU A"). The Group performs impairment test on goodwill annually, or more frequently if there is any indication that it may be impaired, by comparing the recoverable amount to the carrying amount as at the date of the consolidated statement of financial position.

The recoverable amount of the CGU A is determined based on a value in use calculation. The calculation uses cash flow forecast based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a 3% growth rate. The management determines budgeted gross margin based on past performance and their expectation of market development. The pre-tax discount rate applied to the cash flow forecast is 16.8% (2018: 15.0%) and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow forecast is ranged from 5% to 13% (2018: 3% to 38%). Based on the value in use in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2019 (2018: nil).

The recoverable amount calculated based on value in use exceeds carrying value of the CGU A. If the estimated discount rate used in determining the recoverable amounts of CGU A had been 1% higher than the management's estimates as at 31st December, 2019, there would not be an impact on the carrying value of goodwill.

17. INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill and trademark of the lighting business

Goodwill of HK$4,415,000 (2018: HK$4,274,000) and trademark of HK$10,164,000 (2018: HK$9,841,000) are allocated to the Group's cash-generating unit in the design, manufacturing, marketing and distribution of energy efficient lighting products related to the acquisition of Fern-Howard Limited ("CGU B"). The Group performs impairment tests on goodwill and trademark annually, or more frequently if there is any indication that it may be impaired, by comparing the recoverable amount to the carrying amount as at the date of the consolidated statement of financial position.

The recoverable amount of the CGU B is determined based on a value in use calculation. The calculation uses cash flow forecast based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a 2% growth rate. The management determines budgeted gross margin based on past performance and their expectation of market development. The pre-tax discount rate applied to the cash flow forecast is 17.3% (2018: 11.7%) and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow forecast is ranged from 3% to 7% (2018: 15% to 30%). Based on the value in use calculation, there is no impairment loss on goodwill and trademark of the lighting business for the year ended 31st December, 2019.

Impairment tests for patents

Patents with definite useful life has been allocated to the Group's cash-generating unit in the design, manufacturing, marketing and distribution of energy efficient lighting products ("CGU C"). During the year ended 31st December, 2019, due to the continuous losses made by this CGU C, the management of the Group conducted an impairment review on the related assets of the CGU C. The recoverable amount is to the higher of fair value less costs to sell and value in use. Based on the assessment of the management of the Group, the recoverable amount is measured by reference to the fair value less costs to sell. The recoverable amount is lower than the carrying amount of the patents and thus, an impairment loss of HK$10,966,000 is recognised for the patents in relation to the CGU C for the year ended 31st December, 2019.

Impairment tests for TV programs/TV programs under production

During the years ended 31st December, 2019 and 2018, the management of the Group considered the expected future income of certain TV programs/TV programs under production could recover the respective carrying amounts and therefore, there is no impairment loss recognised as cost of sales.

18. OTHER NON-CURRENT ASSETS

On 2nd July, 2015, Shelcore Hong Kong Limited, an indirect wholly-owned subsidiary of the Group which mainly held the land and building in Shenzhen, was disposed of to Shenzhen Shouxi Property Investment Development Company Limited ("Shenzhen Shouxi"), an independent third party. Consideration for the disposal was RMB272,000,000 (approximately HK$337,280,000), including RMB40,000,000 (approximately HK$49,566,000) cash and RMB232,000,000 (approximately HK$287,680,000) worth of residential properties to be delivered to the Group in 2020. Further details of the disposal were disclosed in the announcement and circular dated 18th June, 2015 and 24th July, 2015 respectively.

The management of the Company estimates that the fair value of the right to receive the residential properties is RMB150,000,000 (approximately HK$186,000,000) at the date of the disposal with reference to the valuation performed by an independent valuer.

As at 31st December, 2018, the right to receive the residential properties is classified as other non-current assets based on the fair value at the disposal date and subsequently carries at cost less impairment. No impairment loss was recognised for the year ended 31st December, 2018.

During the year ended 31st December, 2019, the right to purchase the residential properties is transferred due to the exercise of option by lenders as disclosed in Note 30 and therefore resulted in gain on derecognition of non-current assets of HK$85,301,000 recognised in profit or loss.

19. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**140,460**	145,136
Work in progress	**24,753**	34,744
Finished goods	**137,759**	169,896
	302,972	349,776

The cost of inventories is recognised as expense and included in "cost of sales" amounted to HK$847,596,000 (2018: HK$887,877,000). An allowance for slow-moving inventories of approximately HK$3,341,000 has been recognised and included in cost of sales during the year ended 31st December, 2019.

20. DEPOSITS PAID, TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Trade receivables – contract with customers	**290,564**	263,606
Less: Allowance for credit losses	**(9,386)**	(22,028)
	281,178	241,578
Prepayments	**43,823**	34,541
Other deposits and other receivables	**28,011**	18,186
Deposits paid for purchase of land	**20,301**	11,012
Deposits paid for acquisition of assets through acquisition a subsidiary *(Note)*	**–**	37,916
Deposits paid for purchase of raw materials	**18,045**	5,772
Deposits paid for purchase of property, plant and equipment	**2,531**	–
Deposits paid for purchase of patents	**–**	4,877
Rental and utilities deposits	**6,521**	4,768
	400,410	358,650
Less: Non-current deposits paid	**(25,711)**	(56,856)
	374,699	301,794

Note:

On 12th December, 2018, the Group entered into a memorandum of understanding with Nguyễn Chí Dũng and four other Vietnamese individuals, which are independent third parties, to acquire the entire equity interests in Javi Investment Joint Stock Company ("Javi") at a cash consideration of VND561,400,000,000 (approximately equivalent to HK$190,876,000). A 20% deposit of VND112,280,000,000 (approximately equivalent to HK$37,916,000) has been paid as at year ended 31st December, 2018. For details, please refer to the announcement dated on 9th January, 2019. The acquisition is completed in May 2019 and details are disclosed in Note 32.

The Group allows a credit period of 14 to 90 days to its trade customers. An aging analysis of trade receivables based on invoice date (net of allowance for credit losses) at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
0 – 60 days	**182,647**	167,170
61 – 90 days	**43,714**	37,709
More than 90 days	**54,817**	36,699
	281,178	241,578

20. DEPOSITS PAID, TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

As at 31st December, 2019, trade receivables of HK$175,949,000 (2018: HK$202,482,000) were fully performing and not past due.

As at 31st December, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$105,229,000 (2018: HK$39,096,000) which are past due as at the reporting date. Out of the past due balances, HK$10,946,000 (2018: HK$4,840,000) has been past due 90 days or more and is not considered as in default due to the management's historical experience on the settlement pattern or record from these debtors are satisfactory and the good relationship with these debtors.

As at 31st December, 2019, the Group has provided for impairment of HK$9,386,000 (2018: HK$22,028,000) on certain individually impaired trade receivables who have either been placed under liquidation or in severe financial difficulties.

The Group applies simplified approach on non-credit impaired trade receivables to provide for ECL prescribed by HKFRS 9 and assessed credit impaired balances individually. To measure the ECL, trade receivables are assessed individually for debtors with significant balance and collectively using a provision matrix for the remaining balances, which is grouped based on shared credit risk characteristics and the historical observed default rates adjusted for forward-looking estimates that is available without undue costs or effort.

The other classes within trade and other receivables and prepayments do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Details of impairment assessment of trade and other receivables for the years ended 31st December, 2019 and 2018 are asset out in Note 37.

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

	2019 **HK$'000**	2018 HK$'000
HK$	**26,902**	18,928
United States Dollars ("US$")	**233,901**	215,550
Vietnamese Dong ("VND")	**67,176**	72,272
Other currencies	**72,431**	51,900
	400,410	358,650

21. CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash at banks and on hand	**133,832**	294,066
Denominated in:		
HK$	**2,734**	11,122
US$	**39,175**	269,734
Other currencies	**91,923**	13,210
	133,832	294,066

Cash at banks earns interest at floating rates based on daily bank deposit rates.

22. SHARE CAPITAL

	Number of shares	**Ordinary shares**
	'000	HK$'000
At 1st January, 2018, 31st December, 2018 and 2019	756,203	75,620

The total authorised number of ordinary shares is 1,000 million shares (2018: 1,000 million shares) with a par value of HK$0.1 per share (2018: HK$0.1 per share). All issued shares are fully paid.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

23. RESERVES

Shareholders' contribution

The shareholders' contribution represented the deemed contribution arising from the loan from the ultimate holding company which was non-current and interest-free.

24. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable tax rates.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	2019 HK$'000	2018 HK$'000
Deferred tax liabilities	**917**	1,352
Deferred tax assets	**(24,398)**	(24,578)
	(23,481)	(23,226)

The movements in net deferred income tax (assets) liabilities are as follows:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Allowance for doubtful debts** HK$'000	**Others** HK$'000 *(Note)*	**Total** HK$'000
At 1st January, 2018	(1,521)	(5,320)	(741)	(5,371)	(12,953)
Credit to profit or loss *(Note 11)*	(62)	(3,689)	(3,549)	(2,940)	(10,240)
Exchange difference	–	–	–	(33)	(33)
At 31st December, 2018	(1,583)	(9,009)	(4,290)	(8,344)	(23,226)
(Credit) charge to profit or loss *(Note 11)*	(647)	1,006	3,541	(4,167)	(267)
Exchange difference	–	–	–	12	12
At 31st December, 2019	(2,230)	(8,003)	(749)	(12,499)	(23,481)

Note: The amount represents the temporary differences arising from deferred rent, accrued vacation and bonus in the subsidiaries operating in the United States.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31st December, 2019, the Group had unrecognised tax losses of HK$348,002,000 (2018: HK$216,095,000) for which no deferred tax asset has been recognised due to unpredictability of future profit streams. Such tax losses may be carried forward against future taxable income.

25. OBLIGATIONS UNDER FINANCE LEASES

The Group has leased certain machinery and motor vehicles under finance leases in the prior years. During the year ended 31st December, 2018, the Group made a payment of HK$2,813,000 for certain motor vehicles and early settlement for certain machinery under finance lease. The remaining balance was the obligations under finance leases payable for certain motor vehicles. The lease terms were ranged from two to three years. Interest rates underlying the obligations under finance leases were fixed at the range from 7% to 8% per annum.

	Minimum lease payments	Present value of minimum lease payments
	2018	**2018**
	HK$'000	HK$'000
Amounts payable under finance leases within one year	370	361
Less: Future finance charges	(9)	–
Present value of lease obligation	361	361

26. LEASE LIABILITIES

	2019
	HK$'000
Lease liabilities payable:	
Within one year	**13,403**
Within a period of more than one year but not more than two years	**12,543**
Within a period of more than two years but not more than five years	**36,850**
Within a period of more than five years	**17,270**
	80,066
Less: Amounts due for settlement within 12 months shown under current liabilities	**(13,403)**
Amounts due for settlement after 12 months shown under non-current liabilities	**66,663**

27. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade and other payables and accruals principally comprise amounts outstanding for trade purposes and daily operating costs.

	2019 HK$'000	2018 HK$'000
Trade payables	**69,021**	89,695
Accrued employee benefit expenses	**45,561**	45,831
Other payables and accruals	**50,997**	36,394
	165,579	171,920

The credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
0 – 60 days	**36,951**	52,691
61 – 90 days	**18,398**	13,630
More than 90 days	**13,672**	23,374
	69,021	89,695

The carrying amounts of the trade and other payables and accruals are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK$	**35,026**	42,728
US$	**61,956**	44,883
Other currencies	**68,597**	84,309
	165,579	171,920

28. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Toys	12,916	3,473
Lighting products	120	191
	13,036	3,664

As at 1st January, 2018, contract liabilities amounted to HK$37,739,000.

When the Group receives deposits from customers to purchase toys and lighting products, these will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposits. The increase in contract liabilities is mainly due to the increasing sales demand resulting an increase in advance received from customers as at 31st December, 2019.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	3,664	37,739

29. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured	**23,030**	36,502

As at 31st December, 2019 and 2018, the Group's bank borrowings were repayable within one year. The carrying value of the bank borrowings approximated its fair value.

As at 31st December, 2019, the effective interest rate of the variable-rate bank borrowings was 2.8% (2018: 4.2%) per annum.

As at 31st December, 2018, a subsidiary of the Company provided floating charge on certain of its assets including property, plant and equipment, trade receivables and inventories which approximated to HK$143,590,000 to a bank for banking facilities with credit limit of HK$31,200,000 granted to it. There is no such arrangement as at 31st December, 2019.

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK$	**3,779**	–
US$	**9,486**	20,280
British Pounds ("GBP")	**9,765**	16,222
	23,030	36,502

30. LOAN FROM THIRD PARTIES

During the year ended 31st December, 2018, an indirect wholly-owned subsidiary of the Company entered into a loan agreement with third parties in respect of a loan amounting to RMB225,000,000 (equivalent to HK$263,070,000) for a term of one year. The loan is interest-bearing at 3% per annum, secured by the right to purchase of the other non-current assets as detailed in Note 18. As of 31st December, 2018, amount of HK$263,070,000 has been drawn by the Group and interest expense on the loan for the year is HK$6,667,000.

Pursuant to the term of the loan from third parties, the lenders are entitled to the option (the "Option") to obtain the right to purchase for the residential properties in its current state (the "Right to Purchase") so as to make good of the loan principal of RMB225,000,000 (equivalent to HK$263,070,000) and the relevant accrued interest payable amounting to RMB7,040,000 (equivalent to HK$8,231,000) in full. On 15th March, 2019, the lenders exercised the Option and the transfer of the Right to Purchase has been completed on the same date. Under the terms of the loan agreement, upon the exercise of the option, the lenders undertook not to pursue any outstanding loan amounts against the Group. It resulted in a gain on derecognition of non-current assets of HK$85,301,000 and is recognised in profit or loss during the year ended 31st December, 2019.

31. SHARE OPTION SCHEME

On 4th May, 2012, the Company adopted a share option scheme (the "Option Scheme"). The Option Scheme will remain in force for a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted. The purpose of the Option Scheme is to enable the Company to grant options to selected eligible participants as incentives and rewards for their contribution to the Company or its subsidiaries. Details are stated in "SHARE OPTION SCHEME" section of the annual report.

On 8th May, 2017 and 15th May, 2017, 24,000,000 and 2,600,000 share options were granted to the employees of the Group under the Option Scheme. Details are stated as below:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
2017a	8th May, 2017	90 days	6th August, 2017 to 6th August 2020	HK$3.138
2017b	15th May, 2017	90 days	13th August, 2017 to 13th August 2020	HK$3.050

31. SHARE OPTION SCHEME (Continued)

The fair value was calculated using the Binominal Option Pricing Model. The inputs into the model are as follows:

	Option type	
	2017a	2017b
Weighted average share price	**HK$3.050**	HK$2.950
Exercise price	**HK$3.138**	HK$3.050
Expected volatility *(Note a)*	**46.97%**	46.57%
Exercise life	**3.2 years**	3.2 years
Risk-free rate *(Note b)*	**0.94%**	0.89%
Expected dividend yield	**3.96%**	3.97%

Notes:

(a) Expected volatility was determined based on the historical volatility of the Company's share price over the previous three years.

(b) Risk-free rate was determined based on the yield of exchange fund notes of Hong Kong Monetary Authority.

The binomial option pricing model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the best assessment of the directors of the Company on the valuer's estimation. Changes in variables and assumptions may result in changes in the fair value of the share options.

The estimated fair value of the options granted were approximately HK$19,432,000 and HK$2,001,000 respectively. In 2017, the Group recognised share-based payments of HK$19,432,000 and HK$2,001,000 respectively in profit or loss and the corresponding amount has been credited to the share options reserve. No liabilities were recognised due to share-based payment transactions.

32. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

Acquisition of Javi

On 23rd May, 2019, the Group completed the acquisition of 100% equity interest in Javi from an independent third party at a cash consideration of VND561,400,000,000 (equivalent to approximately HK$190,876,000). The principal assets of Javi are leasehold land and land use rights. The assets acquired were as follows:

Consideration transferred

	HK$'000
Cash	190,876

Fair value of assets acquired and liabilities assumed at the date of acquisition recognised by the Group:

	HK$'000
Leasehold land and land use rights	190,834
Cash and cash equivalents	2
Other receivables	40
Net assets assumed	190,876
Net cash outflow on acquisition:	
Deposit paid for acquisition of a subsidiary (Note 20)	(37,916)
Consideration paid	(143,417)
5% of consideration to be paid, included in other payable	(9,543)
Cash and cash equivalents acquired	2
	(190,874)

33. CONTINGENT LIABILITIES

The Group has held a number of licenses from Hasbro, Inc. and Hasbro International (together referred to as "Hasbro Group") to produce and distribute various products. During the year of 2018, Hasbro Group alleged that an audit of the Group's records established that the Group owed Hasbro Group an amount of US$10,061,000, inclusive of purported unpaid royalties, marketing expenses, interest and audit fees.

Upon receipt of the audit findings of Hasbro Group and completion of own investigation, the Group determined that Hasbro Group, at best, was owed approximately US$863,000, which was promptly paid. Hasbro Group disputed the Group's conclusion and issued a notice of termination of the remaining license agreement. The Group filed an action in the United States of America disputing Hasbro Group's interpretation of the license agreement, denying Hasbro Group's alleged right to terminate the license agreement, and alleged that Hasbro Group breached the license agreement by wrongfully attempting to terminate the license. Hasbro Group has filed a counterclaim, contending that the Group owes the amount alleged in the audit and the Group has violated Hasbro Group's intellectual property rights. Hasbro Group has agreed, without prejudice to any claim, to allow the Group to continue to perform pursuant to the license agreement until a court resolution, settlement or the termination of the license by its terms which will occur in the future. Both parties involved are currently engaged in an early mediation.

The Group has sought legal advices and intends to vigorously contest Hasbro Group's claim and as such no further provision is considered required to be made in the consolidated financial statements for the year ended 31st December, 2019 and 2018 in respect of these matters.

34. OPERATING LEASE

The Group as lessee

	2018 HK$'000
Minimum lease payments paid under operating leases during the year	25,499

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
No later than 1 year	21,488
Later than 1 year and no later than 5 years	26,483
Later than 5 years	36,666
	84,637

Operating lease payments represent rentals payable by the Group for its factory premises, office premises, showrooms and warehouse. Leases are negotiated for a term of 8 to 50 years in respect of the factory premises and a term of 1 to 10 years for office premises, showrooms and warehouse. The rentals are fixed throughout the lease period.

35. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2019 HK$'000	2018 HK$'000
Property, plant and equipment	**4,917**	23,181
Acquisition of a subsidiary	**–**	151,663
	4,917	174,844

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which mainly include bank borrowings and loan from third parties as disclosed in Note 29 and Note 30 respectively and equity attributable to owners of the Company, comprising share capital disclosed in Note 22 and reserves.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders, issue of new shares as well as the issue of new debts or the repayment of existing debts.

The Group also monitors capital on the basis of gearing ratio and the compliance of covenants of its borrowings. The gearing ratio is calculated as total debt divided by equity attributable to owners of the Company. Total debt is calculated as total borrowings (including bank borrowings and loan from third parties as shown in the consolidated statement of financial position). Equity attributable to owners of the Company is "total equity", as shown in the consolidated statement of financial position.

The Group's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 20 – 30% determined as the proportion of net debt to equity. Based on the committee's recommendations, the Group expects to decrease its gearing ratio closer to 5% through the exercise of the option pursuant to the terms of the loan agreement and the transfer of the right to purchase for the residential properties.

The gearing ratio at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
Total debt	**23,030**	293,058
Total equity	**1,141,820**	1,084,540
Gearing ratio	**2.0%**	27.0%

The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets – loans and receivables		
– Trade and other receivables	**287,442**	251,415
– Cash and cash equivalents	**133,832**	294,066
	421,274	545,481
Financial liabilities – other financial liabilities at amortised cost		
– Trade and other payables	**120,018**	126,089
– Bank borrowings	**23,030**	36,502
– Loan from third parties	**–**	256,556
	143,048	419,147
Obligations under finance leases	**–**	361

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash and cash equivalents, trade and other payables, bank borrowings and loan from third parties. Details of the financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Foreign exchange risk

The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and VND. Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

In the opinion of the management of the Group, HK$ is reasonably stable with respect to US$ under the Linked Exchange Rate System, and accordingly, the Company does not have any significant foreign exchange risk in respect of transactions or balances as denominated in US$. Accordingly, no sensitivity analysis is performed.

At 31st December, 2019, if VND has strengthened/weakened by 5% against HK$, with all other variables held constant, profit for the year would have been approximately HK$12,482,000 (2018: HK$8,317,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of VND denominated net monetary assets.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances as at 31st December, 2019 and 2018 and bank borrowings as at 31st December, 2019. The Group's fair value interest rate risk primarily relates to the obligations under finance leases.

The Group has not used any interest rate hedging policy to mitigate its exposure associated with interest rate risk. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

In the opinion of the management of the Group, the expected change in interest rate will not have significant impact on the interest income on bank balances, hence sensitivity analysis is not presented. In addition, the management of the Company considers the fair value interest rate risk related to obligations under finance leases is insignificant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of outstanding balances at the end of the reporting period is outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates has been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2019 would decrease/increase by HK$105,000 (2018: HK$145,000).

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

As at 31st December, 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties as at the end of the reporting period are arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1st January, 2018, the Group applies simplified approach on non-credit impaired trade receivables to provide for ECL prescribed by HKFRS 9 and assessed credit impaired balances individually. To measure the ECL, except for those which has been determined as credit impaired of HK$7,179,000 (2018: HK$20,284,000), trade receivables of HK$177,353,000 (2018: HK$184,710,000) are assessed individually for debtors with significant balance by reference to past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position and collectively using a provision matrix for the remaining balances of HK$106,032,000 (2018: HK$58,612,000), which is grouped based on shared credit risk characteristics and the historical observed default rates adjusted for forward-looking estimates that is available without undue costs or effort. As part of the Group's credit risk management, the Group applies internal credit rating for its customers.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There has been significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers (Continued)

The table below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount 2019 HK$'000**	2018 HK$'000
Financial assets at amortised cost						
Trade receivables – contracts with customers	*20*	–	Low risk	Lifetime ECL (not credit impaired and assessed individually)	**177,353**	184,710
		–	*(Note 1)*	Lifetime ECL (not credit impaired and assessed by provision matrix)	**106,032**	58,612
		–	Loss	Credit-impaired	**7,179**	20,284
		–			**290,564**	263,606
Other receivables and deposits	*20*	–	*(Note 2)*	12-month ECL (not credit impaired and assessed individually)	**6,264**	9,837
Cash and cash equivalents	*21*	Aa2 to Baa1	–	12-month ECL (not credit impaired and assessed individually)	**133,832**	294,066

Note:

1. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the ECL on these items grouped by internal credit rating and past due status.

2. For other receivables and deposits, the Group has applied the 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers (Continued)

The estimated loss rates are estimated based on historical credit loss experience of the debtors and are adjusted for forward-looking information (for example, the economics growth rates which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The internal credit rating categories are regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

During the year ended 31st December, 2019, the Group provided HK$3,503,000 (2018: HK$2,292,000) impairment allowance for trade receivables. Reversal of impairment allowance of HK$4,572,000 (2018: HK$968,000) due to the settlement from trade debtors and HK$662,000 (2018: impairment allowance of HK$11,077,000) were made on credit impaired debtors respectively.

The Group writes off a trade receivable 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 when the trade receivables are over two years past due, whichever occurs earlier.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
At 1st January, 2018	2,878	7,296	10,174
Changes due to financial instruments recognised as at 1st January:			
– Impairment losses recognised	2,292	11,077	13,369
– Impairment losses reversed	(968)	–	(968)
– Write-offs	(540)	–	(540)
Exchange adjustments	(7)	–	(7)
At 31st December, 2018	3,655	18,373	22,028
Changes due to financial instruments recognised as at 1st January:			
– Impairment losses recognised	–	662	662
– Impairment losses reversed	(1,775)	(2,797)	(4,572)
– Write-offs	(103)	(11,474)	(11,577)
New financial assets originated	2,841	–	2,841
Exchange adjustments	4	–	4
At 31st December, 2019	4,622	4,764	9,386

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Cash and cash equivalents

The credit risk for bank balances as at 31st December, 2018 and 2019 is considered as not material as such amount is placed in reputable banks with high credit ratings assigned by international credit-rating agencies. The management of the Group assessed 12-month ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. For the years ended 31st December, 2019 and 2018, the Group assessed the ECL for cash and cash equivalents were insignificant and thus no loss allowance was recognised.

Other receivables and deposits

For other receivables and deposits, the management of the Group makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management of the Group believes that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. For the years ended 31st December, 2019 and 2018, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognised.

Other than concentration of credit risk on liquid funds which are deposited with several reputable banks, the Group had concentration of credit risk on trade receivables as 26% (2018: 27%) of the total trade receivables were due from the Group's largest customers based in the United States and 66% (2018: 81%) of the total trade receivables were due from the Group's largest five customers, which were mainly based in the United States and Canada, as at 31st December, 2019.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for the addition of and upgrade on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

37. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand	Within one year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total undiscounted cash flow	Total carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31st December, 2019							
Trade and other payables	77,429	42,589	–	–	–	120,018	120,018
Bank borrowings	–	23,083	–	–	–	23,083	23,030
	77,429	65,672	–	–	–	143,101	143,048
Lease liabilities	–	17,528	16,003	43,334	36,630	113,495	80,066
At 31st December, 2018							
Trade and other payables	66,875	59,214	–	–	–	126,089	126,089
Bank borrowings	–	36,629	–	–	–	36,629	36,502
Loan from third parties	–	264,253	–	–	–	264,253	256,556
Obligations under finance leases	16	354	–	–	–	370	361
	66,891	360,450	–	–	–	427,341	419,508

Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, trade and other receivables, the Group's financial liabilities, including trade and other payables, bank borrowings, loan from third parties and obligations under finance leases, approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

Reconciliation of liabilities arising from financing activities

	Lease liabilities HK$'000 (Note 26)	Bank borrowings HK$'000 (Note 29)	Loan from third parties HK$'000 (Note 30)	Dividend payable (included in other payables) HK$'000 (Note 27)	Obligations under finance leases HK$'000 (Note 25)	Total HK$'000
At 1st January, 2019	–	36,502	256,556	224	361	293,643
Financing cash flows	(19,816)	(14,893)	(1,583)	(79,401)	–	(115,693)
Non-cash changes						
Dividend declared	–	–	–	79,401	–	79,401
Foreign currency translation	–	(178)	–	240	–	62
Interest expenses	2,686	1,599	1,583	–	–	5,868
Adjustment upon application of HKFRS 16	97,196	–	–	–	(361)	96,835
Non-cash transaction as disclosed in Note 18	–	–	(256,556)	–	–	(256,556)
	99,882	1,421	(254,973)	79,641	(361)	(74,390)
At 31st December, 2019	**80,066**	**23,030**	**–**	**464**	**–**	**103,560**

	Bank borrowings HK$'000 (Note 29)	Loan from third parties HK$'000 (Note 30)	Dividend payable (included in other payables) HK$'000 (Note 27)	Obligations under finance leases HK$'000 (Note 25)	Total HK$'000
At 1st January, 2018	53,567	–	224	3,218	57,009
Financing cash flows	(19,328)	256,556	(75,620)	(2,849)	158,759
Non-cash changes					
Dividend declared	–	–	75,620	–	75,620
Foreign currency translation	441	–	–	(44)	397
Interest expenses	1,822	6,667	–	36	8,525
Trade and other payables and accruals	–	(6,667)	–	–	(6,667)
	2,263	–	75,620	(8)	77,875
At 31st December, 2018	36,502	256,556	224	361	293,643

39. RELATED PARTY TRANSACTIONS

The Group is controlled by Smart Forest Limited (incorporated in the British Virgin Islands ("BVI")), which owns 72.54% of the Company's shares. The remaining 27.46% of the shares are widely held. The ultimate parent of the Group is Smart Forest Limited (incorporated in the BVI). The ultimate controlling party of the Group is Mr. Cheng Yung Pun.

In addition to those disclosed in the consolidated financial statements, there are no related party transactions that the Group entered into during the year.

Key management compensation

The remuneration of directors and other members of key management during the year was as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries and other short-term employee benefits	**9,802**	9,990
Post-employment benefits	**181**	181
	9,983	10,171

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31st December, 2018 and 2019 are as follows:

Name of subsidiary	Place of incorporation/ operation	Particulars of issued/ paid-in capital	Interest held		Principal activities
			2019 indirect	2018 indirect	
Funrise, Inc.	The United States	US$7,500 common shares	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Funrise Toys Limited	Hong Kong	HK$10,000 preference shares HK$90,000 ordinary shares HK$10,000 redeemable shares	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its product ranges
Funrise Toys (HK) Limited	Hong Kong	HK$1,000 ordinary shares	**100%**	100%	Wholesale distribution and importation of toy and sales of accessories connected with its products ranges
Javi Investment Joint Stock Company	Vietnam	VND160,000,000,000 ordinary shares	**100%**	–	Investment holding
Keyhinge Enterprises (Macao Commercial Offshore) Company Limited	Macau	MOP100,000 quota capital	**100%**	100%	Purchase and trading of toys
Matrix Manufacturing Vietnam Company Limited	Vietnam	US$14,960,000 contributed legal capital	**100%**	100%	Manufacture of toys and lighting products
Keyhinge Toys Vietnam Joint Stock Company	Vietnam	US$47,719,000 contributed legal capital	**100%**	100%	Manufacture of toys and lighting products
Matrix Vinh Company Limited	Vietnam	US$4,849,000 contributed legal capital	**100%**	100%	Manufacture of toys

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Particulars of issued/ paid-in capital	Interest held		Principal activities
			2019 indirect	2018 indirect	
Mega Management Services Limited	Hong Kong	HK$10 ordinary shares	**100%**	100%	Provision of management services
Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ")	PRC *(Note)*	US$5,910,000 registered capital	**100%**	100%	Manufacture of toys
Matrix Lighting Limited	BVI	US$10 ordinary shares	**100%**	100%	Trading of lighting products
Viribright Lighting Inc.	The United States	US$10,000 common shares of stock	**100%**	100%	Trading of lighting products
Fern-Howard Limited	The United Kingdom	GBP2,769,252 ordinary shares	**65%**	65%	Manufacture and trading of lighting products

Note: MPMZ is a wholly foreign owned enterprise.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

The table below shows details of a non-wholly-owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Fern-Howard Limited	The United Kingdom	**35%**	35%	**(3,506)**	(6,851)	**(3,146)**	360

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Summarised consolidated financial information for the years ended 31st December, 2018 and 2019 in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Fern-Howard Limited

	2019 **HK$'000**	2018 HK$'000
Non-current assets	**4,549**	6,855
Current assets	**35,251**	15,198
Non-current liabilities	**(412)**	(400)
Current liabilities	**(58,150)**	(29,208)
Total equity	**(18,762)**	(7,555)
Revenue	**48,477**	67,543
Loss for the year	**(10,019)**	(19,574)
Total comprehensive expense for the year	**(11,207)**	(18,753)
Net cash inflow (outflow) from operating activities	**600**	(6,192)
Net cash inflow from investing activities	**488**	8,017
Net cash outflow from financing activities	**(373)**	(3,803)
Cash inflow (outflow)	**715**	(1,978)

41. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	2019 HK$'000	2018 HK$'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**466,317**	502,985
Amount due from a subsidiary	**377,128**	361,927
	843,445	864,912
Current assets		
Deposits and prepayments	**293**	288
Amounts due from subsidiaries	**132,008**	144,568
Cash and cash equivalents	**244**	401
	132,545	145,257
Total assets	**975,990**	1,010,169
Equity and liabilities		
Capital and reserves attributable to owners of the Company		
Share capital	**75,620**	75,620
Reserves *(Note)*	**641,789**	724,770
Total equity	**717,409**	800,390
LIABILITIES		
Current liabilities		
Other payables and accruals	**1,766**	1,734
Amounts due to subsidiaries	**256,815**	208,045
Total liabilities	**258,581**	209,779
Total equity and liabilities	**975,990**	1,010,169

41. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY (Continued)

Statement of financial position of the Company (Continued)

Note: Reserves movement of the Company

	Share premium HK$'000	Shareholders' contribution HK$'000 *(Note 23)*	Contributed surplus HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2018	189,090	19,689	3,661	21,433	347,168	581,041
Profit and total comprehensive income for the year	–	–	–	–	219,349	219,349
Dividends paid *(Note 12)*	–	–	–	–	(75,620)	(75,620)
At 31st December, 2018	189,090	19,689	3,661	21,433	490,897	724,770
At 1st January, 2019	189,090	19,689	3,661	21,433	490,897	724,770
Loss and total comprehensive expense for the year	–	–	–	–	(3,580)	(3,580)
Dividends paid *(Note 12)*	–	–	–	–	(79,401)	(79,401)
At 31st December, 2019	189,090	19,689	3,661	21,433	407,916	641,789

42. EVENT AFTER THE END OF THE REPORTING PERIOD

The outbreak in late December 2019 of the novel coronavirus, has adversely impacted global economic activity in the period subsequent to the reporting date. Given the widespread nature of the outbreak, the relative impact to the Group's operation cannot be reliably quantified or estimated as at the date of this report. The Company continues to closely monitor the situation.

Other than the above matters outlined in these consolidated financial statements, there have been no matters that have occurred subsequent to the reporting date which have significantly affected, or may significantly affect the Group's operations, results or state of affairs in future years.

Financial Summary

	For the year ended 31st December,				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	1,277,063	1,247,218	1,434,008	1,353,665	**1,316,101**
Profit before income tax	396,942	135,275	106,882	126,235	**147,323**
Income tax (expenses) credit	(9,069)	(12,621)	1,648	1,874	**(7,828)**
Profit for the year	387,873	122,654	108,530	128,109	**139,495**
Attributable to:					
The owners of the Company	387,873	122,654	112,670	134,960	**143,001**
Non-controlling interests	–	–	(4,140)	(6,851)	**(3,506)**
	387,873	122,654	108,530	128,109	**139,495**
	HK$	HK$	HK$	HK$	**HK$**
Earnings per share					
Basic	0.51	0.16	0.15	0.18	**0.19**
Diluted	0.51	0.16	0.15	0.18	**0.19**

	As at 31st December,				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,153,312	1,182,432	1,307,086	1,562,530	**1,432,923**
Total liabilities	(168,407)	(202,250)	(279,528)	(477,990)	**(291,103)**
	984,905	980,182	1,027,558	1,084,540	**1,141,820**
Equity attributable to the owners of the Company	984,905	980,182	1,020,347	1,084,180	**1,144,966**
Non-controlling interests	–	–	7,211	360	**(3,146)**
	984,905	980,182	1,027,558	1,084,540	**1,141,820**