MATRIX

Matrix Holdings Limited

美力時集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 1005

MATRIX

Funrise

VIRIBRIGHT

Fern Howard

ANNUAL REPORT 2020

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, 2020, the Group employed approximately 6,600 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
Lo Siu Ting

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
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)

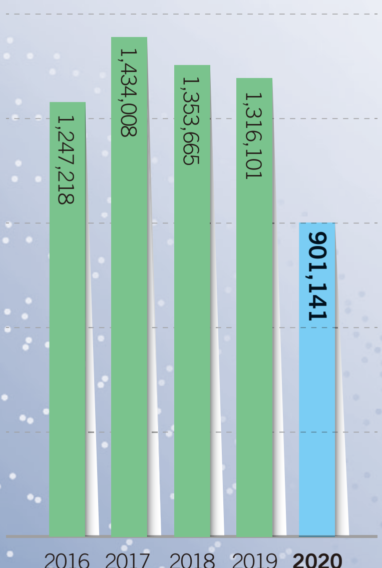
Financial Highlights

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

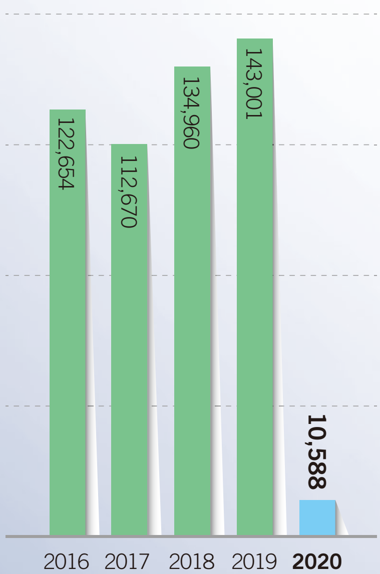
CONSOLIDATED

(HK$'000, except where otherwise stated)	**2020**	**2019**	**% Change**
Revenue	**901,141**	1,316,101	–31.5
Gross profit	**351,159**	468,505	–25.0
Profit for the year attributable to owners of the Company	**10,588**	143,001	–92.6
Earnings per share – Basic	**HK1 cent**	HK19 cents	–94.7
Dividend per share			
Interim, paid	**HK1.5 cents**	HK5.5 cents	–72.7
Final, proposed	**HK4.0 cents**	HK3.0 cents	33.3
Gross Profit Margin (%)	**39.0**	35.6	9.6
Net Profit Margin (%)	**1.2**	10.9	–89.0
Gearing Ratio (%)	**1.1**	2.0	–45.0
Current Ratio	**3.9**	3.6	8.3
Quick Ratio	**2.31**	2.28	1.3

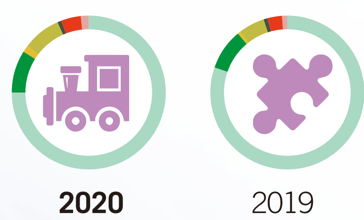
REVENUE



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

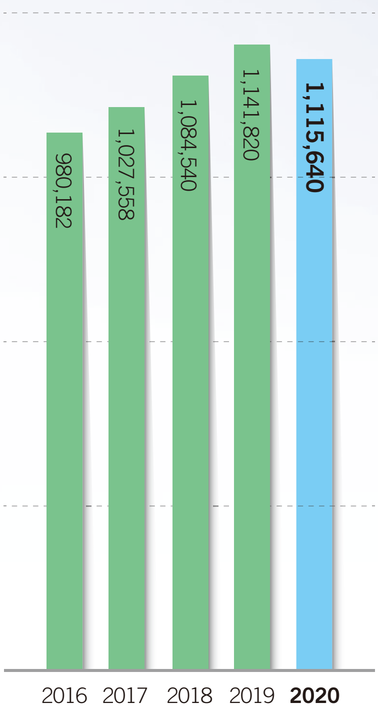


REVENUE BREAKDOWN BY MARKET

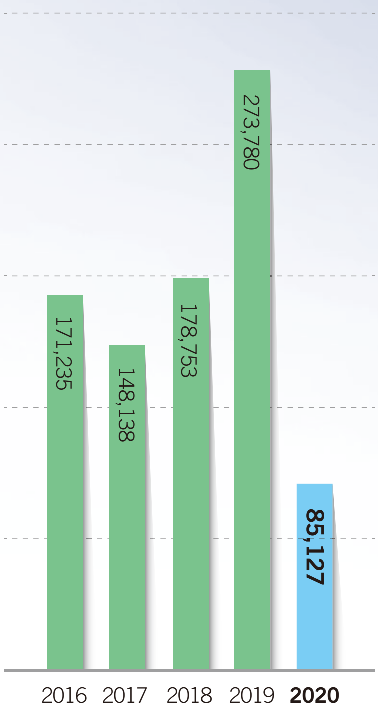


	2020	2019
United States	**75.2%**	80.3%
Europe	**8.7%**	8.6%
Mexico	**1.5%**	0.8%
Canada	**8.2%**	5.3%
South America	**0.8%**	1.1%
Australia and New Zealand	**4.1%**	2.9%
Others	**1.5%**	1.0%

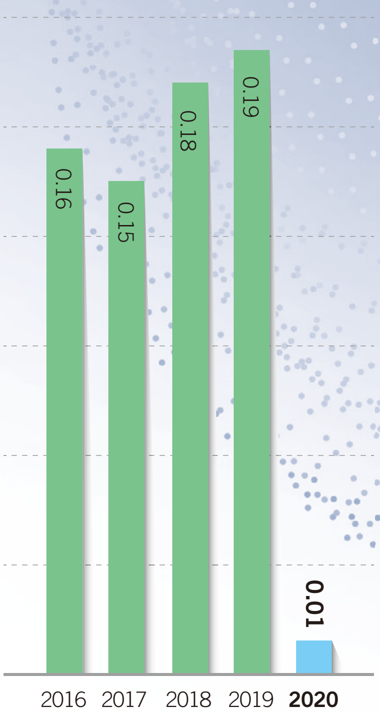
NET ASSETS



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, 2020.

For the year of 2020 (the "year"), the Group's consolidated revenue decreased by approximately HK$414,960,000 or 31.5% to approximately HK$901,141,000 from approximately HK$1,316,101,000 of last year. The profit attributable to the owners of the Company amounted to approximately HK$10,588,000, representing a decrease of 92.6% as compared with the last year's profit in approximately HK$143,001,000.

The novel coronavirus disease (COVID-19) has brought unprecedented challenges to most of the world's business activities. Our major customer adjusted purchase orders or delayed the shipment of certain products which negatively impacted on the Group's revenue and thus the Group's profit recorded a decrease. Nevertheless, the Company prudently manages its financial and cash position to mitigate the risk exposure caused by COVID-19 pandemic. The overall financial position of the Group remains sound and robust.

Looking forward, the Company will, leverage on the development of its core businesses, endeavour to expand production capacity and reduce labour costs through further optimising productivity by automatic production, 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, 25th March, 2021

Management Discussion and Analysis

RESULTS

During the year of 2020 (the "year"), the Group's consolidated revenue reported approximately HK$901,141,000, decreased by approximately HK$414,960,000 or 31.5% as compared to approximately HK$1,316,101,000 of 2019 ("last year"). The profit attributable to the owners of the Company amounted to approximately HK$10,588,000, representing a decrease of 92.6% as compared with the profit in approximately HK$143,001,000 which included the one-off gain on derecognition of non-current assets of HK$85,301,000.

DIVIDEND

During the year, the Company paid an interim dividend of HK1.5 cents (2019: HK5.5 cents) in cash per share to the shareholders. The Directors have resolved to recommend the payment of a final dividend of HK4.0 cents (2019: HK3.0 cents) in cash per share for the year ended 31st December, 2020, payable to shareholders whose names appear on the Register of Members of the Company on 21st May, 2021. Together with the interim dividend paid of HK1.5 cents per share, the total dividend per share for the year is HK5.5 cents (2019: HK8.5 cents).

Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on or about 31st May, 2021 in cash.

FINANCIAL REVIEW

Revenue

Revenue of the year recorded approximately HK$901,141,000, decreased by approximately 31.5% from last year as affected by the outbreak of COVID-19.

Gross profit

The Group's gross profit for the year decreased by approximately 25.0% to approximately HK$351,159,000 due to the decrease of sales.

Distribution and selling costs

Distribution and selling costs decreased by approximately 21.5% to approximately HK$157,597,000 for the year. The decrease was mainly attributable to the decrease in advertising costs and royalties.

Administrative expenses

Administrative expenses of the year decreased by approximately 16.7% to approximately HK$126,507,000, which mainly consisted of office staff salaries, rent and rates of offices, depreciation of property, plant and equipment and other administrative expenses. The decrease resulted mainly from decrease in staff salaries during the year.

Finance costs and income tax

Finance costs of the year decreased by approximately 8.7% to approximately HK$5,358,000 as compared to last year due to decrease in the interest of bank borrowings. Income tax expense of this year recorded approximately HK$941,000 as compared to income tax expense of approximately HK$7,828,000 of last year due to the decrease in income tax provision.

Research and development cost

Research and development (R&D) cost decreased by approximately 13.6% to approximately HK$23,061,000 for the year as less 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 decreased by approximately 22.6% to approximately HK$290,140,000 as compared to last year, mainly due to the decrease of sales.

Trade and other payables and accruals

Trade and other payables and accruals of the year decreased by approximately 11.0% to approximately HK$147,423,000 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 bank borrowings during the year.

Current Ratio

The current ratio of the year was higher than last year which resulted mainly from the settlement of the bank borrowings during the year.

Financial position and cash flows review

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

Liquidity and Financial Resources

As at 31st December, 2020, the Group had cash and cash equivalents of approximately HK$154,699,000 (2019: HK$133,832,000). As at 31st December, 2020, the Group obtained banking facilities in a total of approximately HK$70,000,000 (2019: HK$70,000,000) of which was supported by corporate guarantee.

As at 31st December, 2020, the Group had bank borrowings of approximately HK$12,627,000 (2019: HK$23,030,000).

The Group's gearing ratio, representing the total debt divided by total equity, decreased to 1.1% (2019: 2.0%) due to the decrease in bank borrowings during the year.

During the year, net cash generated from operating activities amounted to approximately HK$120,241,000 (2019: HK$172,580,000). 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$53,599,000 (2019: HK$48,217,000) mainly 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, 2020, the Group had total assets of approximately HK$1,374,342,000 (2019: HK$1,432,923,000), total liabilities of approximately HK$258,702,000 (2019: HK$291,103,000) and equity attributable to owners of the Company of approximately HK$1,121,383,000 (2019: HK$1,144,966,000). The net assets of the Group decreased by 2.3% to approximately HK$1,115,640,000 as at 31st December, 2020 (2019: HK$1,141,820,000).

SIGNIFICANT INVESTMENT AND ACQUISITION

There was no significant investment and acquisition for the year ended 31st December, 2020.

SIGNIFICANT DISPOSAL/IMPORTANT EVENT

There was no significant disposal/important corporate event for the year ended 31st December, 2020.

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 Group's overall turnover for the year decreased as a result of the slowdown in global economic activities due to the outbreak of COVID-19 pandemic which caused customers to adjust purchase orders or delay the shipment of certain products and thus the Group's revenue recorded a decrease. Compared to last year, marketing, selling and distribution costs, administrative expenses and recurring operating expenses decreased. However, as the decrease in sales revenue led to a decrease in gross profit, the Group recorded a decrease of profit comparing with the last year's profit which included the one-off gain on derecognition of non-current assets of HK$85,301,000. The Group has strengthened cost control and prudently managed its financial and cash position to overcome the operating environment during this period and to minimize the impact of the COVID-19 pandemic.

Manufacturing operations

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 reduce production costs and further increase gross profit. The Group kept localising its production and management operations and improving its automatic production to enhance its production capacity and quality so as to maintain competitiveness.

Segment performance

The world's economy needs more time to recover after a tumultuous year in the grip of the pandemic. Customers are waiting for economic recovery and meanwhile keeping cautious about placing orders. Focusing on overseas customers in the United States and Europe, the Group strives to maintain closer contact with customers for improved products and inventory management, and put an effort to increase the customer base, so as to mitigate the impact of any abrupt change that may occur in operations. The Group continues to uphold and properly manage the stated strategy of its established brands. A number of new products –"CAT","Fart Ninjas","Bright Fairy Friends" and girl-role-play products were launched during the year. Over the years, we have used the brand "Gazillion ® Bubbles" to establish our own branded toys and related products, of which their sales were satisfactory. In addition, the Group has been actively launching new marketing campaigns for new toy products of brands such as "CAT", "Fart Ninjas" and "Bright Fairy Friends".

The US

The US was still a major export market for the Group's products. Our revenue decreased by approximately HK$379,550,000 or 35.9% to approximately HK$677,497,000 for the year from approximately HK$1,057,047,000 for the last year.

Amid the COVID-19 economic influence, social distancing and soaring unemployment suppressed consumer spending, the main growth engine, were set to decline despite fiscal measures designed to mitigate the damage during the year. Despite the improvement in economic activity in the third quarter, the pace of growth eased in fourth quarter due to base effects as well as election uncertainty and rising cases of COVID-19. The United States saw a historically wide fiscal deficit as policymakers ramp up spending in an attempt to mitigate the economic fallout from the pandemic.

The Group recorded a decrease in sales from Original Equipment Manufacturing, Original Brand Manufacturing ("OBM") outdoor products of "Gazillion ® Bubbles" and lighting products. However, due to the robust growth for cross-border e-commerce sales, the sales from mass-market retailers for Original Design Manufacturing ("ODM") products under new brands improved. Overall, the revenue generated from the US market recorded a decrease.

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$3,501,000 or 5.0% to approximately HK$73,548,000 for the year from approximately HK$70,047,000 last year.

The pandemic continued to dampen external demand and investment in the near term, while social distancing measures weighed on household incomes, tempering private consumption. That said, the renewed domestic lockdown and travel restrictions, as well as stem from lingering economic scarring from lost jobs and income tempered the pace of the recovery. Notwithstanding, the sales from the Group's mass-market retailers in respect of toy car products, OBM outdoor game products of "Gazillion ® Bubbles" and girls' toy series products increased. 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 decreased by approximately HK$34,653,000 or 30.6% to approximately HK$78,650,000 for the year from approximately HK$113,303,000 last year.

The pandemic saw the European economy grind to a halt in the year, despite the adoption of several relief and stimulus packages. At present, the additional lockdowns and social-distancing measures either now in place or expected to be adopted shortly, the EU economy has contracted as a whole.

The sales of toy car products and girls' role play products recorded a decrease which offset the growth of OBM outdoor products of "Gazillion ® Bubbles". The Group recorded a decrease in orders from customers in Netherlands, Malta, Denmark, Estonia, Italy, Russia, Ukraine and Croatia and the sales of lighting products in Europe despite increasing orders in UK, Finland, Belgium, Greece, Lithuania, Poland, Switzerland, Croatia, Slovenia, Germany, Czech Republic and Luxembourg. Overall, our revenue in the European market recorded a decrease. The Group will continue its efforts to maintain existing distributors and clients such as Costco.

Mexico

Our revenue in Mexico increased by approximately HK$3,623,000 or 35.6% to approximately HK$13,813,000 for the year from approximately HK$10,190,000 last year.

Economic activity contracted sharply in the year due to the pandemic significant risks remain, including subdued sentiment constraining household, uncertainty surrounding the course of the pandemic, and the lack of significant fiscal relief measures hindering the recovery. Notwithstanding, 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 decreased by approximately HK$1,045,000 or 2.7% to approximately HK$37,062,000 for the year from approximately HK$38,107,000 last year.

Prolonged lockdowns and a wave of business closures and job losses due to pandemic crisis weighed heavily on domestic demand over the coming quarters.

The Group recorded a decrease in sales of girls' toy series products and OBM outdoor products of "Gazillion ® Bubbles" which offset the increase in orders for ODM toy car products. Our overall market revenue in Australia and New Zealand recorded a decrease. 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 decreased by approximately HK$6,975,000 or 49.8% to approximately HK$7,045,000 for the year from HK$14,020,000 last year.

South America was headed for another year of slow growth due to the global financial crisis and negative impact of the pandemic. Overall, the Group recorded an increase in sales in Ecuador and Uruguay; however sales orders in Panama, Chile, Argentina, Honduras, Costa Rica, Bolivia, Peru, Brazil and Paraguay for toy car products and outdoor game products in ODM business decreased. As a whole, our revenue in South American markets recorded a decrease.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2020, the Group had a total of approximately 6,600 (2019: 7,700) 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

The uncertainty on the effectiveness of control measures against COVID-19 pandemic posed negative impact on the planned orders from the long-term customers in the European and American markets. The Group will continue to adopt a prudent strategy, focus on higher – profit products, continue to seek portfolio diversification, in order to meet the growing needs of customers. The Group will further strengthen its online distribution channels as well as prudently manages its financial and cash position to mitigate the exposure of risk. The Group will also reduce manpower and improve profitability through higher levels of machine automation and improved process control technology, while expanding its production capacity. The Group will continue to introduce a number of car toys under the well-known toy car brand "CAT", and enrich the product range of "Fart Ninjas" and "Bright Fairy Friends", and it will closely monitor the impact of COVID-19 and strive to develop a diversified portfolio for better income base, so as to create long-term and highest returns for shareholders.

The Group will also actively seek to bring additional value and new income streams to the Group, in order to maximize 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.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 69, 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 40 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 65, 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 40 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 29, 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 11 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 70, 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 33 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 22 years and is currently responsible for the production management.

Mr. Tsang Chung Wa

Aged 57, 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 32 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 20 years and is currently responsible for the marketing management and the related business management works.

Ms. Yip Hiu Har

Aged 41, 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 13 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 71, 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 and the remuneration committee as well as a member of the nomination committee of the Company. Dr. Loke has over 44 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 life 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), China Silver Technology Holdings Limited (formerly known as TC Orient Lighting Holdings Limited), Hang Sang (Siu Po) International Holding Company Limited, Hong Kong Resources Holdings Company Limited, TradeGo FinTech Limited,, Times Universal Group Holdings Limited (formerly known as Forebase International Holdings Limited), Tianjin Development Holdings 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). He also serve as an non-executive director of Veson Holdings Limited (formerly Known as “SCUD Group Limited”).

Mr. Mak Shiu Chung, Godfrey

Aged 58, 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 30 years of experiences in the field of corporate finance.

Mr. Wan Hing Pui

Aged 90, 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 62 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 43, 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 Best Food Holding Company Limited, Lee & Man Chemical Company Limited and Veson Holdings Limited (formerly known as 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 53, 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 32 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, 2020 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, 2020, 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 2021 Annual General Meeting are set out on page 52 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 six board meetings (including some meetings held by video or telephone conference) in which Mr. Yu Sui Chuen, Mr. Tse Kam Wah, Ms. Yip Hiu Har, Dr. Loke Yu alias Loke Hoi Lam, Mr. Heng Victor Ja Wei and Mr. Mak Shiu Chung, Godfrey had attended all board meetings; Mr. Cheng Yung Pun and Mr. Cheng King Cheung had attended five board meetings; Mr. Tsang Chung Wa had attended one board meetings; Mr. Wan Hing Pui had not attended any 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, 2020, 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, 2020, 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 2020.

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, 2020 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, 2020, all members of NC except Mr. Wan had attended the meeting.

C. DIRECTORS' NOMINATION (Continued)

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

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;

- reviewed and assessed the composition of the Board; and

- 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.

C. DIRECTORS' NOMINATION (Continued)

2. Implementation of Board Diversity policy (Continued)

- 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.

D. ACCOUNTABILITY AND AUDIT (Continued)

1. Audit Committee ("AC") (Continued)

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, 2020, 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.

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;

D. ACCOUNTABILITY AND AUDIT (Continued)

1. Audit Committee ("AC") (Continued)

Work done during the year (Continued)

- 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; and

- devised a framework for the type and authorisation of non-audit services provided by the external auditor.

2. Financial Reporting

The financial statements of the Company for the year ended 31st December, 2020 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 61 to 65 of this annual report.

D. ACCOUNTABILITY AND AUDIT (Continued)

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.

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.

D. ACCOUNTABILITY AND AUDIT (Continued)

3. Internal Control (Continued)

Parties involved in internal control function: (Continued)

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.

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 2020, 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.

D. ACCOUNTABILITY AND AUDIT (Continued)

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$2,520,000 for statutory audit services rendered (including disbursement fees) rendered to the Group respectively.

Remuneration paid to other auditors for audit and non-audit services rendered to overseas subsidiaries was approximately HK$2,474,000.

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; and
- 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. COMPANY SECRETARY

Ms. Lo Siu Ting ("Ms Lo") has been appointed as the Joint Company Secretary of the Company with effect from 1st March, 2021. Ms. Lo is a Director of Hongkong Managers and Secretaries Limited, a service firm providing professional corporate services to Hong Kong listed and private companies.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Yu Sui Chuen, Executive Director of the Company, has been designated as the primary contact person at the Company who would work and communicate with Ms. Lo on the Company's corporate governance and secretarial and administrative matters.

G. 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 – Mr. Wan Hing Pui to be re-elected at the 2021 AGM, as he is being an INED for more than 9 years.

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. Cheng Yung Pun had attended the 2020 AGM of the Company held on 28th May, 2020.

G. INVESTOR RELATIONS (Continued)

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.

G. 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.

Environmental, Social and Governance Report

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 set out 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"). This Report is based on four principles, namely materiality, quantitative, balance and consistency.

1.2 Scope of Reporting

The Group is engaged in toy manufacturing business for international brand customers and lighting products manufacturing distributed directly to consumers and 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, 2020 to 31st December, 2020.

1.4 Stakeholder Engagement and Materiality

The Group is committed to creating sustainable growth and long-term value for its stakeholders. We maintain an open dialogue with our stakeholders to gather their views on what ESG issues matter most. We engage our key stakeholders including shareholders, employees, suppliers and investors on a regular basis across various platforms, such as meetings and corporate website to gauge their expectations and feedback on how we could address ESG matters in the best manner.

1.5 Environmental, Social and Governance Strategies

The directors and senior management monitor and respond to the latest environmental, social and governance issues and make relevant recommendations to enhance the Group's environmental, social and governance performance and then report to the Board on major issues.

2. ENVIRONMENTAL PERFORMANCE

The Group's manufacturing business activities do not create much impact on the environment and natural resources. Despite this, the Group endeavors to protect the environment by implementing various measures to minimize environmental adverse impacts arising from its operations and ensure sustainable development and operation of the Group.

Climate change and global warming are the most pressing environmental problems in the world. There are many environmental groups that have been actively working with companies to reduce pollution. In response, the Group has implemented measures to minimize greenhouse gas emissions and the generation of non-hazardous waste.

The Group has also strictly complied with the relevant laws and regulations for emissions, the relevant regulations include National Technical Regulation on Industrial Emission of Inorganic Substances and Dusts, National Technical Regulation on Noise and National Technical Regulation on Industrial Wastewater.

Carbon emissions from the consumption of energy are one of our major emission sources. During the Reporting Period, the Group has adopted effective measures for reducing carbon emissions, mainly by using energy efficient equipment such as injection molding with infrared nano heating barrels and hydraulic with servo motor and the use of 14W LED Light bulbs.

2.1 Emissions Policy and Compliance

The Group strives to achieve efficiency in the usage of energy, water and materials. We operate in a manner in compliance with relevant local environmental regulations, general practice of respective jurisdictions and international standards, with an aim to reduce the use of natural resources and protect the environment. The Group has implemented a number of measures in accordance with applicable 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 Group's various factories in Vietnam was 122,722.2 m^2 (2019: 122,722.2 m^2) and most of the Group's emissions were produced by its factory operations in Vietnam. Major types of emissions from these production plants in the Reporting Period were 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 produced by the Group in the course of operation was 8,405.77 tonnes (2019: 17,894.36 tonnes) of carbon dioxide equivalent (tCO_2-eq). The GHG emissions generated from the daily electricity power consumption is the main source of the Group's carbon footprint.

The following table highlights the carbon footprint in the Reporting Period:

Scope of Greenhouse Gas Emissions	Emission Sources	**2020 Emission (in tonnes of CO_2e)**	2019 Emission (in tonnes of CO_2e)	**2020 Total Emission (in percentage)**	2019 Total Emission (in percentage)
Scope 1					
Direct Emission	Unleaded Diesel Oil consumed by generator, forklift, boiler	**25.67**	37.96	**0.31%**	0.21%
Scope 2					
Indirect Emission	Purchased Electricity	**8,359.6**	17,834.60	**99.45%**	99.67%
Scope 3					
Other Indirect Emission	Water Consumption	**20.5**	21.80	**0.24%**	0.12%
	Total:	**8,405.77**	17,894.36	**100%**	100%

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.1 Emissions Policy and Compliance (Continued)

2.1.2 Greenhouse Gas Emissions (Continued)

The major contributor of the GHG emissions was Scope 2: Indirect Emission, which accounts for 99.45% (2019: 99.67%) of the total emissions. A further GHG emission analysis is set forth below:

Unit	**2020**	2019
Total Greenhouse Gas Emitted (a) tCO_2e	**8,405.77**	17,894.36
Total Floor Area Coverage (b) m^2	**122,722.2**	122,722.2
Total production weight (KG)	**3,524,419**	5,315,514
Annual Emission Intensity		
(c) = (a)/(b) tCO_2e/m^2	**0.068**	0.146
Annual Greenhouse Gas emission Intensity		
(c) = (a)/(b) tCO_2e/KG	**0.0024**	0.0039
Total Removal by installing of LED equipment (e) tCO_2e	**12,394**	12,241

2.1.3. Emission Prevention

In 2020, there were 8,405.77 tonnes (2019: 17,894.36 tonnes) of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) generated from the Group's operation. The annual emission intensity was 0.068 tCO_2e/m^2 (2019: 0.146 tCO_2e/m^2).

To minimize the impact of carbon footprints on the environment, the Group has implemented various energy-saving and energy efficiency measures, including i) installing high-performance electric equipment; ii) replacing all normal light bulbs with light-emitting diode ("LED") energy-saving lighting gradually; iii) installing roof made of transparent materials to provide natural lighting; iv) switching off unnecessary lighting and electrical appliances when they are not in use; v) setting the photocopiers in energy saving mode when not in use; and vi) deploying window panes which provide natural ventilation for better indoor air quality as well as natural lighting to save energy. These measures contributed to a total amount of 12,394 tonnes (2019: 12,241 tonnes) reduction in emission of carbon-dioxide equivalent greenhouse gases.

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.1 Emissions Policy and Compliance (Continued)

2.1.4 Non-hazardous waste, paper and hazardous waste

Non-Hazardous waste

Non-hazardous waste generated from the Group's operation includes living wastes, plastic, packaging materials, carton paper and cloth, which are mainly related to factories' operations as well as sales and marketing functions.

Hazardous waste

A total of 22,000 kg hazardous waste was collected during the Reporting Period (2019: 37,000 kg).

2.1.5 Use of paper and packaging material

A total of 1.18 tonnes (2019: 0.9 tonne) has been used in the daily office operations and advertising activities. Some marketing materials such as leaflets, catalogues and sales kits have been disposed through licensed recycling companies. During the Reporting Period, 201,587 tonnes of packaging materials were disposed (2019: 263,691 tonnes). These packaging materials mainly include plastic bottles and carton papers like carton containers used for production and paper waste.

2.1.6 Waste reduction

To better manage the use of resources, the Group strives to adopt paper saving and waste reduction measures, such as default double-sided printing, reusing packaging boxes and stationeries like files folders and envelopes as well as recycling of waste paper, plastic and cloth.

2. ENVIRONMENTAL PERFORMANCE (Continued)

2.2. Use of Resources

2.2.1 Energy

Electricity

The electricity consumption by the Group was 27,062,134 kW-h (2019: 31,621,610 kW-h).

The Group strives to save energy by installing energy-saving appliances such as LED lighting and switching to low energy consumption equipment. In addition, the Group participated in the Environmental Score-Card ("ESC") program which was launched by the factories in compliance with local environmental regulations and in response to customers' call pertaining to minimization of light nuisance and energy wastage.

2.2.2 Unleaded Diesel Oil

A total of 7,360 liters (2019: 13,600 liters) of unleaded diesel oil was consumed, leading to 25.67 tonnes (2019: 37.96 tonnes) of carbon dioxide equivalent in the Reporting Period.

2.2.3 Water

Water consumption by the Group was 66,456 m^3 (2019: 69,941 m^3) and the corresponding water intensity was 0.548 m^3/m^2 (2019: 0.57 m^3/m^2). Same as last year, only the water consumption in relation to the operation factories and offices with total floor area coverage of 121,316.4 m^2 (2019: 121,316.4 m^2) were included in this section as water usage of our offices in other regions has been embedded in the management fee and thus can't be quantified separately.

Nevertheless, the Group actively promotes water-saving practices such as i) installing water meters to monitor water consumption; ii) providing periodic training to workers to enhance their awareness on water-saving in factories; and iii) encouraging employees to turn taps off tightly and prevent dripping of water.

2.3 The Environment and Natural Resources

To ensure prompt actions can be taken in response to possible incidents that may cause pollution to the environment, the Group has clearly defined the roles and responsibilities of each managerial post and formulated possible preventive and remedial 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. An emergency plan is formulated to cope with possible incidents of pollution. During the Reporting Period, the Group did not find any activities with significant impacts on the environment and natural resources.

3. SOCIAL PERFORMANCE

3.1 Employment Policy and Compliance

The Group recognizes that human resources are a valuable asset and understands that its service quality and competitiveness are highly dependent on the contribution of its employees. Therefore, it offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains talent. As at 31 December 2020, the Group had a workforce of about 6,600 staff in globally including Hong Kong, Macau, the PRC, and Vietnam etc., of which about 5,300 were full-time factory workers.

During the Reporting Period, the employment distribution and annual turnover rate are as follows:

3.1.1 Total workforce by age group

Employee's Age Distribution

Age	**18-25**	**26-35**	**36-45**	**46-55**	**56 and above**
2020					
Number of employees	769	1,718	1,911	912	5
2019					
Number of employees	1,200	2,200	2,100	900	10

3.1.2 Annual Turnover Rate

Annual Turnover Rate

Age	**18-25**	**26-35**	**36-45**	**46-55**	**56 and above**
2020					
Percentage of turnover	46.70%	36.53%	12.52%	3.77%	0.48%
2019					
Percentage of turnover	62.03%	27.99%	8.3%	1.68%	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 the statutory benefits such as annual leave, sick leave and maternity leave.

The Group's mission, policies, procedures, promotion mechanism, compensation and benefits, occupational health and safety, and complaint handling are set out in the factory employee handbook which is subject to regular review to ensure compliance with latest labour laws and regulations.

3.2 Health and Safety Policy and Compliance

Due to the industrial business nature, recruitment and retention of capable staff has continued to be a challenge in the Reporting Period. The Group is committed to providing a safe and healthy working environment for factory employees. The Group also advocates equal opportunity in employment practices. Employees are treated fairly in terms of compensation, promotion opportunity and training regardless of their age, gender and ethnical backgrounds. Despite that aging population is a common and long-term demographic trend in the countries where the Group operates, the Group will be able maintain a stable workforce to ensure sustainable growth.

The Group regularly reviews the health and safety procedures of its factories to safeguard factory employees' well-being. Briefings, trainings, news and tips are provided to factory employees from time to time to strengthen their awareness and to refresh their knowledge and skills on using plant equipment.

During the Reporting Period, the Group was not aware of any non-compliance with health and safety laws and regulations that have a significant impact on the Group relating to the provision of a safe working environment and the protection of employees from occupational hazard.

3. SOCIAL PERFORMANCE (Continued)

3.2 Health and Safety Policy and Compliance (Continued)

3.2.1 *Occupational Health and Safety Data*

The occupational health and safety data is as below:

Occupational Health and Safety Data

	2020	2019
Work related fatality	**0**	0
Work injury cases >3 days	**16**	20
Work injury cases <3 days	**4**	9

	2020	2019
Lost days due to work injury	**228**	254
Total Labour working days	**1,603,126**	1,913,800

3.2.2 *Safety Measures*

Safety precautions alert are communicated to factory employees from time to time through briefings and guidelines to promote and enhance safety awareness and practices. The management will continue to make effort in strengthening the Group's occupational health and safety standard.

3.3 Development and Training

A comprehensive range of professional training is provided by the Group to factory workers. All newly hired factory workers are required to participate in a mandatory orientation session. These sessions are designed to help workers familiarize themselves with the Group's vision, aspirations, missions, core values, business goals, as well as to learn about product manufacturing and equipment handling procedures. In addition, regular supplementary courses are provided for employees who wish to refresh their knowledge. The Group also hosts management workshops for eligible employees.

Total number of training hours in the Reporting Period is as follows:

	2020	2019
Total Number of Factory employee	**5,326**	6,400
Total Training Hours	**4 hours/employee**	4 hours/employee

3. SOCIAL PERFORMANCE (Continued)

3.3 Development and Training (Continued)

The Group actively engages and motivates factory employees through various communication channels. Latest corporate news, activities and staff promotion announcements are communicated to factory employees through regular newsletters. The Group also organised various team-building activities such as annual dinner and festival-related celebration to enhance two-way communication between senior management and general staff. The Group believes that having a transparent governance system and continuous investing in human resources are essential to the success of a sustainable business.

3.4 Labour Standard

3.4.1 Child and forced labour

All employments within the Group are voluntary and any child or forced labour is specifically forbidden. In the Reporting Period, the Group operated in compliance with applicable labour laws, including those of Vietnam. A comprehensive screening process is in place pursuant to the guidelines set forth by the Group's Human Resources Department. Every job applicant is required to complete a questionnaire and provide the stipulated information which will be checked and verified by the Human Resource Department. This also allows the Group to hire suitable candidate in accordance with the job requirements while meet the candidates' expectations.

3.5 Supply Chain Management

A strict tendering process is implemented to ensure a fair and transparent mechanism is in place for procurement of all equipment, products and services. Relevant departments are responsible for preparing tender requests which are subject to the Group's quality assurance policy management program and the tender requests should be included in the annual budgeting process. Supporting documents such as testing reports shall be provided to evaluate the suppliers' performance so that the best suitable vendor can be selected. The Group also monitors the overall performance of selected suppliers by conducting audits and obtaining appropriate documentary proof to support and justify the appointment and on-going cooperation.

3.5.1 Number of Suppliers by Geographical Region

The Group has around 500 service and product suppliers in 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 objective and clear criteria including production process, quality management system, regulatory compliance, operating capacity, availability of sample for testing, packaging, procedures, price and delivery pledge to ensure the best value for money services or products are procured.

3. SOCIAL PERFORMANCE (Continued)

3.6 Product Responsibility

To provide high quality products to customers, the Group carefully sourced its products and equipment in accordance with its standardised procurement procedures and policies. A comprehensive procurement management system is implemented by the Group to screen out undesirable products when sourcing raw materials, ingredients 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 relation to product quality and delivery.

3.6.2 Protecting Intellectual Property Rights

The Group owned and registered a number of patents, trademarks and domain names which are important to its brands and corporate image. The Group has complied with all applicable regulations in relation to intellectual property ("IP") rights. During the Reporting Period, the Group did not aware any material infringement of IP rights. The Group is confident that all reasonable measures have been taken to prevent any infringement of its IP rights and at the same time avoid infringing the IP rights of other parties.

3.6.3 Quality Assurance Process

The Group devotes to provide customers with innovative and high-quality products and at the same time place great emphasis on quality compliance. Considerable efforts are made to strengthen product quality and new equipment is procured to enhance its competitiveness.

3.6.4 Consumer Data Protection and Privacy Policies

The Group complies with the Personal Data (Privacy) Ordinance ("PDPO") and sets out the guidelines in relation to personal data protection in the Group's Code of Conduct. Procedures are in place to ensure that all personal data collected from employees, customers and suppliers are kept confidential. Password is required for access to computers and servers to ensure that confidential information is protected from unauthorized access. All employees are reminded to strictly adhere to the guidelines set out in the Group's Code of Conduct to ensure personal data is collected, used, maintained, managed, stored and handled properly in compliance with the PDPO and relevant regulations.

3. SOCIAL PERFORMANCE (Continued)

3.7 Anti-Corruption

The Group is committed to upholding the core values of honesty, integrity and fairness in the daily operation. All directors and employees are required to strictly follow the Group's Code of Conduct to prevent potential bribery, extortion and fraud.

3.7.1 Preventive Measures

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

The Group has reinforced these messages as codified in the Group's Code of Conduct to employees to ensure they understand the requirements. There was no related legal case concluded against the Group during the Reporting Period.

3.8 Community Investment

The Group is committed to fostering harmonious relationships with the communities where it operates. The Group also recognizes that community participation is important for its long-term development. During the Reporting Period, the Group worked closely with various stakeholders to promote trade union development.

4. THE FUTURE DIRECTION OF THE GROUP

The Group will continue to actively source energy-saving appliances, equipment and materials by carefully selecting and reviewing suppliers and scrutinize the product origins. In addition, more training will be provided to employees to strengthen their awareness of the possible impacts brought about by the Group's business on the environment and society. The Group will also review its resource consumption to look for improvement areas and achieve sustainable development which in turn will enhance its capability to attract talents in future.

5. REPORTING FRAMEWORK

Key Performance Index (the "KPI") Reference Table is presented 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 is presented 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, 2020.

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 35 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 70.0% of the Group's turnover, with the largest customer accounted for approximately 31.6%. The aggregate purchases attributable to the Group's five largest suppliers were approximately 28.1% of total purchases of the Group, with the largest supplier accounted for approximately 15.8%.

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, 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 66.

During the year, the Company has paid 2019 final dividend of HK3.0 cents per share and the Directors have declared 2020 interim dividend of HK1.5 cents per share. Both 2019 final dividend and 2020 interim dividend were paid by cash. The total cash dividend paid during the year was approximately HK$34,029,000.

The Directors now recommend the payment of a final dividend of HK4.0 cents per share amounting to approximately HK$30,248,000, to the shareholders on the register of members on 21st May, 2021 payable in cash. The remaining distribution reserves in the Company amounted to approximately HK$371,241,000.

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, 2020 are set out in Note 21 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, 2020, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$401,489,000 (2019: HK$411,577,000).

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 148.

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 ("Dr. Loke"), independent non-executive Director ("INED") of the Company, was appointed as INED of the following companies whose shares are listed on the Stock Exchange: Zhenro Properties Group Limited with effect from 16th January, 2018, China Silver Technology Holdings Limited (formerly known as TC Orient Lighting Holdings Limited) with effect from 6th June, 2018 and TradeGo FinTech Limited with effect from 29th August, 2018 and appointed as non-executive director of Veson Holdings Limited (formerly known as SCUD Group Limited) as from 1st September 2020.

Dr. Loke resigned as INED of the following companies whose shares are listed on the Stock Exchange: Winfair Investment Company Limited on 3rd April, 2018, Shenzhou Space Park Group Limited (formerly known as China Household Holdings Limited) on 6th August, 2018, Veson Holdings Limited (formerly known as 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, Tianhe Chemicals Group Limited on 1st June, 2020 and CIMC-TianDa Holdings Company Limited (formerly known as China Fire Safety Enterprise Group Limited) on 1st February, 2021 and resigned as company secretary of Minth Group Limited, whose shares are listed on the Stock Exchange, with effect from 8th February, 2018.

OTHER INFORMATION OF DIRECTORS (Continued)

In the last three years, Mr. Heng Victor Ja Wei, INED of the Company, resigned as INED of CIMC-TianDa Holdings Company Limited on 1st February, 2021, a company whose shares is listed on the Stock Exchange.

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 (2019: ten) Directors and one (2019: one) chief executive are as follows:

Name	Fees HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors				
Cheng Yung Pun	–	861	–	861
Yu Sui Chuen	–	1,404	8	1,412
Tse Kam Wah	–	1,304	–	1,304
Tsang Chung Wa	–	1,044	18	1,062
Cheng King Cheung	–	1,833	91	1,924
Yip Hiu Har	–	1,127	18	1,145
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	–	1,221	18	1,239
	400	8,794	153	9,347

DIRECTORS' SERVICE CONTRACTS

In accordance with clause 99 of the Bye-laws of the Company, Ms. Yip Hiu Har, Mr. Tsang Chung Wa, Mr. Heng Victor Je Wei and Mr. Wan Hing Pui, who have been longest in office since their last elections and will retire by rotation at the AGM.

The retiring directors have indicated that they will offer themselves to be eligible for re-election at the AGM. Separate resolution will be proposed at 2021 annual general meeting for the re-election of Mr. Wan Hing Pui, 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 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 34 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, 2020, 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 *(Note 1)*	–	3.138	6th August 2017 to 6th August 2020
	2017b	2,600,000 *(Note 2)*	–	–	2,600,000 *(Note 2)*	–	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 granted on 8th May, 2017 pursuant to the Company's share option scheme were lapsed.

(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 were lapsed.

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, 2020, the options carry right to subscribe for a total of 26,600,000 shares granted on 8th May, 2017 and 15th May, 2017 pursuant to the Company's share option scheme were lapsed.

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, 2020.

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, 2020, 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, 2020.

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, 2020, 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 5.99% of the issued share capital of the Company;

(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;

SHARE OPTION SCHEME (Continued)

(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;

(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.

SHARE OPTION SCHEME (Continued)

During the year under review, no options have been granted and remained outstanding carry rights to subscribe (31st December, 2019: 26,600,000 shares, representing 3.52%) of the shares in issue at that date, remain outstanding. As at 31st December, 2020 and as at the latest practicable date prior to the issue of the annual report, save as the above mentioned options carrying rights to subscribe 26,600,000 share expired, no options have been exercised, cancelled or lapsed (31st December, 2019: 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 the corporate governance code (the "CG Code") and amended it from time to time, 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 deviations from code provisions A.4.1 and E.1.2 which are explained as follows:

a) under the 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; and

b) under the code provision E.1.2, Mr. Cheng Yung Pun, the chairman of the Board and the Nomination Committee was unable to attend the 2020 annual general meeting ("AGM") due to the impact of COVID-19 pandemic. Except the chairman of the Board and the two executive directors, all other members of the Board had attended the 2020 AGM and one of them had been nominated as chairman of the AGM. The Company considers that the presence is sufficient for (i) answering questions from and (ii) effective communication with the shareholders of the Company present at the 2020 AGM.

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, 25th March, 2021

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 66 to 147, which comprise the consolidated statement of financial position as at 31st December, 2020, 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, 2020, 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

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 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 16 to the consolidated financial statements, as at 31st December, 2020, the Group had goodwill of HK$96,822,000 relating to the acquisition of Funrise, Inc. in 2007. Funrise, Inc. 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, future revenue growth and costs.	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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter 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 Ng Kin Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	*5*	**901,141**	1,316,101
Cost of sales		**(549,982)**	(847,596)
Gross profit		**351,159**	468,505
Other income	*6*	**10,897**	25,577
Other gains and losses	*7*	**(1,140)**	81,023
Impairment losses on intangible assets	*16*	**–**	(10,966)
Distribution and selling costs		**(157,597)**	(200,722)
Administrative expenses		**(126,507)**	(151,945)
Research and development costs		**(23,061)**	(26,676)
Other expenses		**(39,461)**	(31,605)
Operating profit		**14,290**	153,191
Finance costs	*8*	**(5,358)**	(5,868)
Profit before income tax	*9*	**8,932**	147,323
Income tax expenses	*11*	**(941)**	(7,828)
Profit for the year		**7,991**	139,495
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(142)**	(2,814)
Total comprehensive income for the year, net of tax		**7,849**	136,681
Profit (loss) for the year attributable to:			
Owners of the Company		**10,588**	143,001
Non-controlling interests		**(2,597)**	(3,506)
		7,991	139,495
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**10,446**	140,187
Non-controlling interests		**(2,597)**	(3,506)
		7,849	136,681
Earnings per share attributable to owners of the Company for the year (expressed in HK cents per share)			
Basic earnings per share	*13*	**1**	19
Diluted earnings per share	*13*	**1**	19

Consolidated Statement of Financial Position

At 31st December, 2020

	Notes	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**190,026**	177,248
Intangible assets	*16*	**113,053**	118,720
Deferred tax assets	*22*	**24,780**	24,398
Deposits paid	*19*	**25,065**	25,711
Right-of-use assets	*15*	**270,009**	275,137
		622,933	621,214
Current assets			
Inventories	*18*	**303,919**	302,972
Trade and other receivables and prepayments	*19*	**290,140**	374,699
Tax receivable		**2,651**	206
Cash and cash equivalents	*20*	**154,699**	133,832
		751,409	811,709
Total assets		**1,374,342**	1,432,923
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*21*	**75,620**	75,620
Reserves		**1,045,763**	1,069,346
Equity attributable to owners of the Company		**1,121,383**	1,144,966
Non-controlling interests		**(5,743)**	(3,146)
Total equity		**1,115,640**	1,141,820

Consolidated Statement of Financial Position

At 31st December, 2020

	Notes	2020 HK$'000	2019 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	*22*	**964**	917
Lease liabilities	*23*	**63,607**	66,663
		64,571	67,580
Current liabilities			
Trade and other payables and accruals	*24*	**147,423**	165,579
Contract liabilities	*25*	**9,622**	13,036
Tax payables		**5,244**	8,475
Bank borrowings	*26*	**12,627**	23,030
Lease liabilities	*23*	**19,215**	13,403
		194,131	223,523
Total liabilities		**258,702**	291,103
Total equity and liabilities		**1,374,342**	1,432,923

The consolidated financial statements on pages 66 to 147 were approved and authorised for issue by the Board of Directors on 25 March 2021 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, 2020

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 (Note)	Share options reserves HK$'000	Other reserve 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, 2020	75,620	189,090	21,028	21,433	(150)	(48,202)	886,147	1,144,966	(3,146)	1,141,820
Profit (loss) for the year	–	–	–	–	–	–	10,588	10,588	(2,597)	7,991
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(142)	–	(142)	–	(142)
Total comprehensive (expense) income for the year	–	–	–	–	–	(142)	10,588	10,446	(2,597)	7,849
Dividends paid *(Note 12)*	–	–	–	–	–	–	(34,029)	(34,029)	–	(34,029)
Lapse of share options	–	–	–	(21,433)	–	–	21,433	–	–	–
Balance at 31st December, 2020	75,620	189,090	21,028	–	(150)	(48,344)	884,139	1,121,383	(5,743)	1,115,640

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Shareholders' contribution HK$'000 (Note)	Share options reserves HK$'000	Other reserve 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
Profit (loss) for the year	–	–	–	–	–	–	143,001	143,001	(3,506)	139,495
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(2,814)	–	(2,814)	–	(2,814)
Total comprehensive (expense) income for the year	–	–	–	–	–	(2,814)	143,001	140,187	(3,506)	136,681
Dividends paid *(Note 12)*	–	–	–	–	–	–	(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

Note: The shareholders' contribution represents the deemed contribution arising from a loan from the ultimate holding company which was non-current and interest-free, including the adjustment to imputed interest for the loan.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2020

	2020 HK$'000	2019 HK$'000
OPERATING ACTIVITIES		
Profit before income tax	**8,932**	147,323
Adjustments for:		
Loss on disposal of property, plant and equipment	**4,222**	1,177
Interest income	**(2,900)**	(4,191)
Interest expenses	**5,358**	5,868
Impairment losses on intangible assets	**–**	10,966
Depreciation of property, plant and equipment	**35,044**	39,151
Depreciation of right-of-use assets	**25,719**	23,153
Amortisation of intangible assets	**10,074**	58,285
Allowance for inventories	**3,177**	3,341
Gain on derecognition of non-current assets	**–**	(85,301)
Gain on modification of leases	**(6,900)**	–
Net impairment losses (reversal) under ECL model	**2,093**	(1,069)
Operating cash flows before movements in working capital	**84,819**	198,703
(Increase) decrease in inventories	**(3,883)**	44,936
Decrease (increase) in deposits paid, trade and other receivables and prepayments	**69,052**	(69,906)
Decrease in trade and other payables and accruals	**(19,338)**	(5,928)
(Decrease) increase in contract liabilities	**(3,423)**	9,372
Cash generated from operations	**127,227**	177,177
Income taxes paid	**(6,986)**	(7,745)
Income taxes refunded	**–**	3,148
NET CASH FROM OPERATING ACTIVITIES	**120,241**	172,580
INVESTING ACTIVITIES		
Interest received	**2,900**	4,191
Payments of right-of-use assets	**–**	(143,417)
Proceeds from disposals of property, plant and equipment	**1,468**	1,450
Proceeds from lessor on modification of a lease	**7,471**	–
Deposits paid for right-of-use assets	**–**	(9,289)
Purchases of and deposits paid for property, plant and equipment	**(40,744)**	(50,733)
Addition of intangible assets	**(3,996)**	(19,129)
NET CASH USED IN INVESTING ACTIVITIES	**(32,901)**	(216,927)

	2020 HK$'000	2019 HK$'000
FINANCING ACTIVITIES		
Interest paid	**(489)**	(3,182)
Interest paid for lease liabilities	**(4,869)**	(2,686)
Dividends paid	**(34,029)**	(79,401)
New bank borrowings raised	**52,804**	128,289
Repayments of bank borrowings	**(62,989)**	(141,583)
Repayment of lease liabilities	**(18,432)**	(17,130)
NET CASH USED IN FINANCING ACTIVITIES	**(68,004)**	(115,693)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,336**	(160,040)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**133,832**	294,066
Effect of foreign exchange rate changes	**1,531**	(194)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**154,699**	133,832

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

1. GENERAL INFORMATION

Matrix Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liabilities and its share are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activities of the Company and its subsidiaries (the "Group") are the manufacturing and trading of toys and lighting products. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 35.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1st January, 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the "Amendments to References to the Conceptual Framework in HKFRS Standards" and the amendments to HKFRSs in the current year 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 the consolidated financial statements.

2. APPLICATION OF 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 and the related Amendments[1]
Amendment to HKFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
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	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1st January, 2023
2 Effective for annual periods beginning on or after 1st January, 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1st June, 2020
5 Effective for annual periods beginning on or after 1st January, 2021

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments*: *Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31st December, 2020, the Group has several Hong Kong Interbank Offered Rate ("HIBOR") bank borrowings which may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

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

Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)"

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Base on the Group's outstanding liabilities as at 31st December, 2020, the application of the amendments will not result in reclassification of the Group liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 "Leases", 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Business combinations or asset acquisitions

Optional concentration test

Effective from 1st January, 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired by allocating the purchase price first to financial assets at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group 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 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).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Goodwill (Continued)

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, 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 cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Revenue from contracts with customers

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

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

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

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

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

A contract 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 and are presented as right to returned goods asset.

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combination, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee

Allocation of consideration to components of a contract

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

Short-term leases

The Group applies the short-term lease recognition exemption to leases 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.

Right-of-use assets

The cost of right-of-use asset 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 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

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.

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 asset.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings 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.

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 is presented as "right-of-use assets" in the consolidated statement of financial position.

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately, including patents, are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives, including trademark, that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project), including TV programs/TV programs under production, is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination, including customer base, are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

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 individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 cash-generating units. 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 cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 cash-generating unit or a group of cash-generating units) 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 of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Borrowing costs (Continued)

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

Taxation

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Taxation (Continued)

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Taxation (Continued)

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Share-based payments

Equity-settled share-based payments transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Provisions and contingent liabilities

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

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 market place.

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

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables and cash and cash equivalents) which are subject to impairment assessment 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, 12m ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments 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 or credit-impaired and collectively assessed for the remaining balance.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(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.

(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, or in the case of trade receivables, when the amounts are over 2 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (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 and 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.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade and other payables and bank borrowings, 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 JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

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

Revenue recognition from sales of products with no alternative use at a point in time

Revenue is recognised over time when 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. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts and opinion from external legal counsel. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group for the performance completed to date with a reasonable margin. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

During the year ended 31st December, 2020, the Group recognised revenue from sales of toys products with no alternative use at a point in time amounted to HK$284,698,000 (2019: HK$616,019,000).

Key sources of estimation uncertainty

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

Deferred tax assets

As at 31 December, 2020, the carrying amounts of deferred tax assets was HK$24,780,000 (2019: HK$24,398,000). No deferred tax asset has been recognised on the tax losses of HK$399,788,000 (2019: HK$308,648,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future, which is a key source of estimation uncertainty. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies (Continued)

Estimated impairment of goodwill and trademark

The Group tests annually whether goodwill and trademark with indefinite useful life has suffered any impairment (Note 16). 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 of the relevant cash-generating units to which goodwill and trademark have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value-in-use calculation involved management's judgment in estimating the appropriate key assumptions to be applied in preparing cash flow forecast and an appropriate discount rate. Changing the assumptions selected by management in assessing impairment, including the discount rate 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. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss may arise.

As at 31st December, 2020, the carrying amount of goodwill and trademark are HK$101,361,000 (2019: HK$101,237,000) and HK$10,451,000 (2019: HK$10,164,000). Details of the recoverable amount calculation are disclosed in note 16.

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually.

Details on how ECL were measured should be consistent to the internal credit risk management of the Group in note 32.

In addition, for trade receivables which are individually insignificant or when the Group does not have reasonable and supportable information that is available without undue cost or effort to measure ECL on individual basis, collective assessment is performed.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 32.

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 sales related taxes.

i. Disaggregation of revenue from contracts with customers

	2020 HK$'000	2019 HK$'000
Types of goods		
Manufacturing and trading of toys	**859,211**	1,248,467
Manufacturing and trading of lighting products	**41,930**	67,634
Total	**901,141**	1,316,101
Timing of revenue recognition		
At a point in time	**901,141**	1,316,101

Revenue disaggregation by geographical markets is disclosed in segment revenue and results.

ii. Performance obligations for contracts with customers

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

For sales of toys and lighting products to customers and the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific location. Certain of the Group's contracts with customers are based on customer's specification with no alternative use. Taking into consideration for contract terms and the relevant legal and regulatory environment that apply to the relevant contracts, 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. Transportation and handling activities that occur before customers obtain control are considered as fulfilment activities. 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 bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 14 to 90 days upon delivery.

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.

5. REVENUE AND SEGMENT INFORMATION (Continued)

iii. Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the unsatisfied performance obligations of HK$9,622,000 (2019: HK$13,036,000) as at 31st December, 2020 are expected to be recognised as revenue within one year.

The chief operating decision makers ("CODM") have been identified as the Executive Directors. Operating segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the CODM for the purposes of resource allocation and assessment of segment performance focuses on the geographic location of customer.

The Group's reportable segments are the United States, Europe, Mexico, Canada, South America, Australia and New Zealand based on the geographic location of customers. Other locations include the PRC, Hong Kong, Taiwan, Korea, other countries in Asia Pacific and others, which are individually below 10 per cent are aggregated are presented under "other locations".

Segment revenue 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, 2020

	Reportable segments									
	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Total reportable segments HK$'000	Other locations HK$'000	Unallocated HK$'000	Consolidated HK$'000
REVENUE										
External sales	677,497	78,650	13,813	73,548	7,045	37,062	887,615	13,526	–	901,141
RESULTS										
Segment profit (loss)	140,945	(84)	893	7,234	1,287	2,830	153,105	2,874	–	155,979
Unallocated other income										2,919
Unallocated corporate expenses										(144,608)
Finance costs										(5,358)
Profit before income tax										8,932
Amounts included in the measure of segment profit or loss:										
Depreciation and amortisation	57,699	3,866	692	3,579	357	1,881	68,074	682	2,081	70,837
Net impairment losses under ECL model	1,575	183	33	171	16	86	2,064	29	–	2,093
Allowance for inventories	2,389	277	49	259	25	131	3,130	47	–	3,177

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31st December, 2019

	Reportable segments									
	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Total reportable segments HK$'000	Other locations HK$'000	Unallocated HK$'000	Consolidated HK$'000
REVENUE										
External sales	1,057,047	113,303	10,190	70,047	14,020	38,107	1,302,714	13,387	–	1,316,101
RESULTS										
Segment profit	205,169	7,567	204	5,598	2,143	1,891	222,572	943	–	223,515
Unallocated other income										6,692
Unallocated other gains and losses										85,301
Unallocated corporate expenses										(162,317)
Finance costs										(5,868)
Profit before income tax										147,323
Amounts included in the measure of segment profit or loss:										
Depreciation and amortisation	91,977	9,064	1,138	7,736	1,566	4,166	115,647	1,460	3,482	120,589
Impairment losses on intangible assets	–	–	–	–	–	–	–	–	10,966	10,966
Net reversal under ECL model	(859)	(92)	(8)	(57)	(11)	(31)	(1,058)	(11)	–	(1,069)
Allowance for inventories	2,683	288	26	179	36	97	3,309	32	–	3,341

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit before income tax earned by each segment without allocation of certain other income, other gains and losses, central administrative expenses, directors' emoluments and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segments asset 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, 2020

	Reportable segments								
	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Total reportable segments HK$'000	Other locations HK$'000	Consolidated HK$'000
ASSETS									
Segment assets	426,098	42,153	7,181	38,131	2,856	22,680	539,099	24,874	563,973
Property, plant and equipment									190,026
Intangible assets									113,053
Deferred tax assets									24,780
Right-of-use assets									270,009
Unallocated corporate assets									212,501
Total assets									1,374,342
LIABILITIES									
Segment liabilities	90,702	8,282	876	6,126	447	3,526	109,959	2,627	112,586
Deferred tax liabilities									964
Bank borrowings									12,627
Lease liabilities									82,822
Unallocated corporate liabilities									49,703
Total liabilities									258,702

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segments asset and liabilities (Continued)

As at 31st December, 2019

	Reportable segments								
	The United States HK$'000	Europe HK$'000	Mexico HK$'000	Canada HK$'000	South America HK$'000	Australia and New Zealand HK$'000	Total reportable segments HK$'000	Other locations HK$'000	Consolidated HK$'000
ASSETS									
Segment assets	444,382	63,071	5,359	41,427	7,117	27,694	589,050	33,582	622,632
Property, plant and equipment									177,248
Intangible assets									118,720
Deferred tax assets									24,398
Right-of-use assets									275,137
Unallocated corporate assets									214,788
Total assets									1,432,923
LIABILITIES									
Segment liabilities	105,774	10,027	538	5,242	735	3,487	125,803	5,603	131,406
Deferred tax liabilities									917
Bank borrowings									23,030
Lease liabilities									80,066
Unallocated corporate liabilities									55,684
Total liabilities									291,103

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

- all assets are allocated to operating segments other than property, plant and equipment, right-of-use assets, intangible assets, deferred tax assets and other corporate assets, all of which are managed on a central basis; and

- all liabilities are allocated to operating segments other than deferred tax liabilities, lease liabilities, bank borrowings and other corporate 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.

Information about the Group's non-current assets is presented based on the geographical location of the assets.

	2020	2019
	HK$'000	HK$'000
Hong Kong	**8,914**	1,370
Vietnam	**356,311**	356,142
The United States	**55,703**	64,013
The PRC	**42,381**	44,749
Europe	**9,818**	10,697
Other countries	**11,973**	1,125
	485,100	478,096

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

Information about major customers

For the year ended 31st December, 2020, there are 2 customers (2019: 2 customers) in the United States with revenue amounted to HK$284,698,000 (2019: HK$616,019,000) and HK$223,201,000 (2019: HK$219,781,000), contributing to approximately 31.6% and 24.8% (2019: 46.8% and 16.7%), 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

	2020 HK$'000	2019 HK$'000
Interest income on bank deposits	**2,900**	4,191
Sales of scrap materials and samples	**19**	2,168
Broadcasting income	**1,077**	14,438
Rental income	**936**	1,716
Royalty income	**633**	1,723
Government grants	**4,400**	–
Others	**932**	1,341
	10,897	25,577

During the current year, the Group recognised government grants of HK$4,400,000 in respect of Covid-19-related subsidies, of which mainly HK$1,434,000 relates to Employment Support Scheme provided by the Hong Kong government and HK$682,000 relates to Paycheck Protection Program provided by the government of the United States.

7. OTHER GAINS AND LOSSES

	2020 HK$'000	2019 HK$'000
Loss on disposal/write-off of property, plant and equipment	**(4,222)**	(1,177)
Net exchange loss	**(1,725)**	(4,170)
Net (impairment losses) reversal under ECL model	**(2,093)**	1,069
Gain on derecognition of non-current assets *(Note 17)*	**–**	85,301
Gain on disposal of right-of-use assets	**6,900**	–
	(1,140)	81,023

8. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interests on:		
Bank borrowings	**489**	1,599
Lease liabilities	**4,869**	2,686
Loan from third parties	**–**	1,583
	5,358	5,868

9. PROFIT BEFORE INCOME TAX

	2020 HK$'000	2019 HK$'000
Profit before income tax has been arrived at after charging:		
Employee benefit expense *(Note 10)*	**305,118**	368,587
Less: Amount capitalised in inventories	**(188,369)**	(239,172)
	116,749	129,415
Depreciation of property, plant and equipment *(Note 14)*	**35,044**	39,151
Less: Amount capitalised in inventories	**(30,316)**	(33,695)
	4,728	5,456
Depreciation of right-of-use assets *(Note 15)*	**25,719**	23,153
Less: Amount capitalised in inventories	**(6,047)**	(6,099)
	19,672	17,054
Amortisation of intangible assets (included in cost of sales) *(Note 16)*	**10,074**	58,285
Auditor's remuneration		
– Audit services	**4,070**	4,207
– Non-audit services	**924**	1,499
Royalty expenses	**26,943**	63,551
Research and development costs	**23,061**	26,676
Legal and professional fee (included in other expense)	**39,461**	31,605

10. EMPLOYEE BENEFIT EXPENSE

Employee benefits expense, including directors' emoluments, represents:

	2020 HK$'000	2019 HK$'000
Wages, salaries and bonuses	**286,283**	350,168
Retirement benefits – defined contribution plans	**3,891**	4,242
Staff welfare	**14,944**	14,177
	305,118	368,587

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, 2020, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK$3,891,000 (2019: HK$4,242,000), the decrease in retirement benefit scheme contributions is mainly due to decrease in social insurance contribution in the PRC following the local government social insurance concessive policy due to Covid-19. As at 31st December, 2020, the Group was not entitled to any forfeited contributions to reduce its future contributions (2019: nil).

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors

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 is set out below:

Year ended 31st December, 2020

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	–	861	–	861
Yu Sui Chuen	–	1,404	8	1,412
Tse Kam Wah	–	1,304	–	1,304
Tsang Chung Wa	–	1,044	18	1,062
Cheng King Cheung	–	1,833	91	1,924
Yip Hiu Har	–	1,127	18	1,145
	–	7,573	135	7,708

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

Name	Fee	Salary	Employer's contribution to a retirement benefit scheme	Total
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
	400	–	–	400

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Name	Fee	Salary	Employer's contribution to a retirement benefit scheme	Total
Chief Executive				
Chen Wei Qing ("Mr. Chen") *(Note (i))*	–	1,221	18	1,239

The Chief Executive's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (Continued)

Year ended 31st December, 2019

Name	Fee HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'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
	–	8,455	163	8,618

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

Name	Fee HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
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
	400	–	–	400

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Name	Fee HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Chief Executive				
Mr. Chen *(Note (i))*	–	1,347	18	1,365

The Chief Executive's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

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) No director or chief executive waived or agreed to waive any emoluments during the years ended 31st December, 2020 and 2019.

(iii) No directors' termination benefits were paid during the years ended 31st December, 2020 and 2019.

10. EMPLOYEE BENEFIT EXPENSE (Continued)

Benefits and interests of directors (Continued)

Notes: (Continued)

(iv) No consideration was provided to third parties for making available directors' services during the years ended 31st December, 2020 and 2019.

(v) There were no loans, quasi-loans and other dealings entered into by the Company or its subsidiary undertaking as at 31st December, 2020 and 2019.

(vi) 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.

Five highest paid individuals

The five highest paid employees of the Group during the year included one (2019: one) director, details of whose remuneration are set out in the analysis shown above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 HK$'000	2019 HK$'000
Salaries and allowances	**9,594**	9,928
Contributions to retirement benefit schemes	**399**	368
	9,993	10,296

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2020	2019
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**	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 the loss of office.

11. INCOME TAX EXPENSE

	2020 HK$'000	2019 HK$'000
Current tax:		
– Hong Kong	–	2,137
– Other jurisdictions	3,868	6,639
Overprovisions in prior years:		
– Hong Kong	(22)	(161)
– Other jurisdictions	(2,558)	(520)
Deferred tax *(Note 22)*	(347)	(267)
	941	7,828

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.

(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% (2019: 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% (2019: 21%) for the year.

(iv) A subsidiary of the Group established in Macau is exempted from Macau Complementary Tax for relevant offshore business.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

11. INCOME TAX EXPENSE (Continued)

Income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 **HK$'000**	2019 HK$'000
Profit before income tax	**8,932**	147,323
Tax calculated at the applicable domestic tax rate of respective companies *(Note)*	**206**	3,968
Tax effects of:		
– Income not taxable for tax purposes	**(125)**	(26)
– Expenses not deductible for tax purposes	**3,895**	8,244
– Profits which are exempted from tax or under tax concessions	**(15,993)**	(26,298)
– Tax losses not recognised	**15,297**	23,004
Overprovisions in prior years	**(2,580)**	(681)
Others	**241**	(383)
Income tax expense	**941**	7,828

Note: The weighted average applicable tax rate was 2.3% (2019: 2.7%). 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

	2020 **HK$'000**	2019 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2020 Interim – HK1.5 cents (2019: 2019 interim dividend, HK5.5 cents) per share	**11,343**	41,591
2019 Final – HK3.0 cents (2018: 2018 final dividend, HK5.0 cents) per share	**22,686**	37,810
	34,029	79,401

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31st December, 2020 of HK4.0 cents (2019: final dividend in respect of the year ended 31st December, 2019 of HK3.0 cents) per ordinary share, in an aggregate amount of HK$30,248,000 (2019: HK$22,686,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

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.

	2020 HK$'000	2019 HK$'000
Earnings		
Profit for the year attributable to owners of the Company	**10,588**	143,001
	'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 potential ordinary shares:		
Options	**752**	2,380
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**756,955**	758,583
	HK cents	HK cents
Basic earnings per share	**1**	19
Diluted earnings per share	**1**	19

For both year, the share options have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on the assumption of the conversion of all potential dilutive ordinary shares arising from the share options.

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
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/write-off	–	(212)	(1,108)	–	–	(1,307)	(2,627)
Depreciation *(Note 9)*	(5,445)	(2,144)	(15,722)	(8,486)	–	(7,354)	(39,151)
Transfer from right-of-use assets	–	–	–	–	–	(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
Year ended 31st December, 2020							
Opening net book amount	78,866	3,928	58,350	10,916	11,307	13,881	177,248
Exchange adjustments	(62)	18	(15)	–	(6)	(22)	(87)
Additions	2,480	219	17,669	–	6,142	27,089	53,599
Transfer from construction in progress to buildings	14,111	–	–	–	(14,111)	–	–
Disposals/write-off	–	(4)	(1,611)	(15)	–	(4,060)	(5,690)
Depreciation *(Note 9)*	(6,064)	(1,162)	(16,696)	(5,968)	–	(5,154)	(35,044)
Closing net book amount	89,331	2,999	57,697	4,933	3,332	31,734	190,026
At 31st December, 2020							
Cost	151,673	21,311	223,960	154,490	3,332	50,428	605,194
Accumulated depreciation and impairment	(62,342)	(18,312)	(166,263)	(149,557)	–	(18,694)	(415,168)
Net book amount	89,331	2,999	57,697	4,933	3,332	31,734	190,026

Note: Others include items, such as tooling equipments, containers and motor vehicles. During the year, the addition mainly represented livestocks acquired, which do not involve biological transformation for sale.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for buildings under development, after taking into account the residual values, are depreciated on a straight-line basis 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

As at 31st December, 2019, buildings of approximately HK$25,093,000 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. Subsequent to the end of the reporting period, the land and building being frozen by the Court are released.

15. RIGHT-OF-USE ASSETS

	Leasehold land and land use rights HK$'000	Leased properties HK$'000	Office equipment HK$'000	Total HK$'000
At 31st December, 2020				
Carrying amount	191,297	77,747	965	270,009
At 31st December, 2019				
Carrying amount	196,447	76,869	1,821	275,137
For the year ended 31st December, 2020				
Depreciation charge	4,551	20,218	950	25,719
For the year ended 31st December, 2019				
Depreciation charge	4,578	17,520	1,055	23,153

15. RIGHT-OF-USE ASSETS (Continued)

	Year ended 31st December,	
	2020	2019
	HK$'000	HK$'000
Expense relating to short-term leases	**6,218**	7,102
Expense relating to other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	**–**	860
Total cash outflow for leases	**29,519**	180,484
Additions to right-of-use assets	**22,330**	46,577
Addition of right-of-use assets through acquisition of subsidiary	**–**	190,834
Disposal of right-of-use assets	**1,713**	–

For both years, the Group leases leased properties and office equipment for its operations. Lease contracts are entered into for fixed term of 2 to 15 years (2019: 2 to 15 years).

During the year, the Group entered in one (2019: one) new lease and renewed three (2019: two) new lease agreements for the use of office and warehouse for 2 to 5 years (2019: 2 to 5 years). On the date of new lease entered/lease modification, the Group recognised HK$22,330,000 right-of-use assets and HK$22,330,000 lease liabilities (2019: HK$46,577,000 right-of-use assets and HK$46,577,000 lease liabilities).

Lease terms are negotiated on an individual basis and contain 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 regularly entered into short-term leases for offices and warehouse. As at 31st December, 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term leases expense disclosed above.

In addition, the Group owns several properties. The Group is the registered owner of these properties interests, including the underlying leasehold lands. Lump sum payments were made to acquire these property interests. The leasehold lands are presented separately if the payments made can be allocated reliably.

Restrictions or covenants on leases

In addition, lease liabilities of HK$82,822,000 are recognised with related right-of-use assets of HK$78,712,000 as at 31st December, 2020 (2019: lease liabilities of HK$80,066,000 and related right-of-use assets of HK$78,690,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

16. INTANGIBLE ASSETS

	Goodwill	Customer base	Patents	Trademark	TV programs/ TV programs under production	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1st January, 2019	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
Exchange difference	124	–	–	287	–	411
Additions	–	–	–	–	3,996	3,996
At 31st December, 2020	101,361	74,620	14,630	10,451	67,980	269,042
ACCUMULATED AMORTISATION AND IMPAIRMENT						
At 1st January, 2019	–	(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)
Amortisation *(Note 9)*	–	–	(258)	–	(9,816)	(10,074)
At 31st December, 2020	–	(74,620)	(14,630)	–	(66,739)	(155,989)
CARRYING AMOUNT						
At 31st December, 2020	101,361	–	–	10,451	1,241	113,053
At 31st December, 2019	101,237	–	258	10,164	7,061	118,720

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.

16. INTANGIBLE ASSETS (Continued)

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/TV programs under production represent the development, production and distribution of children's animated television series. Costs of the production comprise fees paid and payable under agreements, and direct costs/expenses incurred during the production of the program. 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 any accumulated impairment losses, are amortised using the straight-line method to allocate the cost of TV programs over their estimated useful life ranged from within one year to three years. As at 31st December, 2020, the cost of TV programs/TV programs under production with amount of approximately HK$67,980,000 (2019: HK$63,984,000) has been recognised and amortisation of HK$9,816,000 (2019: HK$56,923,000) is recognised based on the revenue earned during the year ended 31st December, 2020.

Impairment tests for goodwill of distribution of toys

Goodwill of HK$96,822,000 (2019: HK$96,822,000) is mainly allocated to a cash-generating unit in the distribution of toys in the United States market related to the acquisition of Funrise, Inc. in 2007 ("CGU A"). In addition to goodwill above, property, plant and equipment and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment. 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 has been determined based on a value in use calculation. The calculation uses cash flow forecast projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady 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 15.6% (2019: 16.8%) 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 28% (2019: 5% to 13%). Based on the value in use in the calculation, there is no impairment loss on goodwill for the year ended 31st December, 2020 (2019: 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, 2020, there would not be an impact on the carrying value of goodwill.

16. INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill and trademark of the lighting business

Goodwill of HK$4,539,000 (2019: HK$4,415,000) and trademark of HK$10,451,000 (2019: HK$10,164,000) 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"). In addition to goodwill and trademarks above, property, plant and equipment and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill and trademark are also included in the respective CGU for the purpose of impairment assessment. 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 has been determined based on a value in use calculation. The calculation uses cash flow forecast projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady 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 18.1% (2019: 17.3%) and it reflects specific risks relating to the relevant operating unit. The sales growth rate applied to cash flow forecast is ranged from 10% to 55% (2019: 3% to 7%). 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, 2020.

Impairment tests for patents

Patents with finite 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, 2020 and 2019, 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 during the year.

17. 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 Shenzhen Shouxi Property Investment Development Company Limited ("Shenzhen Shouxi"), an independent third party. Consideration for the disposal comprised of RMB40,000,000 (approximately HK$49,566,000) cash and estimated 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 estimated that the fair value of the right to receive the residential properties was RMB150,000,000 (approximately HK$186,000,000) at the date of the disposal with reference to the valuation performed by an independent valuer.

In 2018, an indirect wholly-owned subsidiary of the Company entered into a loan agreement with third parties (the "lenders") in respect of a loan amounting to RMB225,000,000 (equivalent to HK$263,070,000). 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.

18. INVENTORIES

	2020 **HK$'000**	2019 HK$'000
Raw materials	**120,512**	140,460
Work in progress	**52,150**	24,753
Finished goods	**131,257**	137,759
	303,919	302,972

The cost of inventories is recognised as expense and included in "cost of sales" amounted to HK$539,908,000 (2019: HK$789,311,000). An allowance for slow-moving inventories of approximately HK$3,177,000 (2019: HK$3,341,000) has been recognised and included in cost of sales during the year ended 31st December, 2020.

19. DEPOSITS PAID, TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 HK$'000	2019 HK$'000
Trade receivables – contract with customers	**239,516**	290,564
Less: Allowance for credit losses	**(6,516)**	(9,386)
	233,000	281,178
Prepayments	**33,590**	43,823
Other deposits and other receivables	**8,893**	28,011
Deposits paid for right-of-use assets	**20,291**	20,301
Deposits paid for purchase of raw materials	**12,861**	18,045
Deposits paid for purchase of property, plant and equipment	**420**	2,531
Rental and utilities deposits	**6,150**	6,521
	315,205	400,410
Less: Non-current deposits paid	**(25,065)**	(25,711)
	290,140	374,699

As at 1st January, 2019, trade receivables from contracts with customers amounted to HK$241,578,000.

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 of credit losses) at the end of the reporting period is as follows:

	2020 HK$'000	2019 HK$'000
0–60 days	**175,995**	182,647
61–90 days	**31,579**	43,714
Over 90 days	**25,426**	54,817
	233,000	281,178

As at 31st December, 2020, trade receivables of HK$153,053,000 (2019: HK$175,949,000) were fully performing and not past due.

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

As at 31st December, 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$79,947,000 (2019: HK$105,229,000) which are past due as at the reporting date. Out of the past due balances, HK$2,486,000 (2019: HK$10,946,000) 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.

Details of impairment assessment of trade and other receivables for the years ended 31st December, 2020 and 2019 are set out in Note 32.

20. CASH AND CASH EQUIVALENTS

	2020 **HK$'000**	2019 HK$'000
Cash at banks and on hand	**154,699**	133,832

Cash at banks carry interest at market rates which range from 0.01% to 4.78% (2019: 0.01% to 4.98%).

Details of impairment assessment of cash at banks are set out in note 32.

21. SHARE CAPITAL

	Number of shares '000	**HK$'000**
Ordinary shares of HK$0.1 each		
Authorised:		
At 1st January, 2019, 31st December, 2019 and 31st December, 2020	1,000,000	100,000
Issued and fully paid:		
At 1st January, 2019, 31st December, 2019 and 31st December, 2020	756,203	75,620

There were no changes in the authorised share capital in both years.

22. DEFERRED TAX

Deferred 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:

	2020	2019
	HK$'000	HK$'000
Deferred tax liabilities	**964**	917
Deferred tax assets	**(24,780)**	(24,398)
	(23,816)	(23,481)

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

	Accelerated tax depreciation	**Tax losses**	**Allowance for doubtful debts**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2019	(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)
Charge (credit) to profit or loss *(Note 11)*	733	–	(234)	(846)	(347)
Exchange difference	–	–	–	12	12
At 31st December, 2020	(1,497)	(8,003)	(983)	(13,333)	(23,816)

Note: The amount represents the temporary differences arising from research and development, 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, 2020, the Group had unrecognised tax losses of HK$399,788,000 (2019: HK$308,648,000) 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 indefinitely.

23. LEASE LIABILITIES

	2020 HK$'000	2019 HK$'000
Lease liabilities payable:		
Within one year	**19,215**	13,403
Within a period of more than one year but not exceeding two years	**15,877**	12,543
Within a period of more than two years but not exceeding five years	**32,476**	36,850
Within a period of more than five years	**15,254**	17,270
	82,822	80,066
Less: Amount due for settlement within 12 months shown under current liabilities	**(19,215)**	(13,403)
Amounts due for settlement after 12 months shown under non-current liabilities	**63,607**	66,663

The weighted average incremental borrowing rates applied to lease liabilities range from 2.5% to 7% (2019: 2.5% to 7%).

24. TRADE AND OTHER PAYABLES AND ACCRUALS

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

	2020 HK$'000	2019 HK$'000
Trade payables	**57,175**	69,021
Accrued employee benefit expenses	**43,571**	45,561
Other payables and accruals	**46,677**	50,997
	147,423	165,579

24. TRADE AND OTHER PAYABLES AND ACCRUALS (Continued)

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:

	2020 HK$'000	2019 HK$'000
0–60 days	37,841	36,951
61–90 days	5,501	18,398
Over 90 days	13,833	13,672
	57,175	69,021

25. CONTRACT LIABILITIES

	2020 HK$'000	2019 HK$'000
Toys	9,500	12,916
Lighting products	122	120
	9,622	13,036

As at 1st January, 2019, contract liabilities amounted to HK$3,664,000.

The contract liabilities are expected to be settled within the Group's normal operating cycle and therefore are classified as current liabilities. 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 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.

	2020 HK$'000	2019 HK$'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	13,036	3,664

26. BANK BORROWINGS

	2020 HK$'000	2019 HK$'000
Unsecured	**12,627**	23,030

As at 31st December, 2020, the effective interest rate of the variable-rate bank borrowings was 2.05% (2019: 2.82%) per annum.

	2020 HK$'000	2019 HK$'000
Carrying amounts repayable*:		
Within one year	**4,716**	23,030
Within a period of more than one year but not exceeding two years	**1,967**	–
Within a period of more than two years but not exceeding five years	**5,944**	–
	12,627	23,030
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(12,627)**	(23,030)
Amounts shown under non-current liabilities	**–**	–

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

27. 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.

		Number of underlying shares attached to the share options						
	Option type	Outstanding as at 1.1.2019 and 31.12.2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31.12.2020	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.

The share options with an amount of HK$21,433,000 were expired during the year ended 31st December, 2020.

28. 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 lands. 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 lands	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	(37,916)
Consideration paid	(143,417)
5% of consideration to be paid, included in other payables	(9,543)
Cash and cash equivalents acquired	2
	(190,874)

29. 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 a 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, 2020 and 2019 in respect of these matters.

30. CAPITAL COMMITMENTS

	2020 **HK$'000**	2019 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**8,214**	4,917

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which mainly include lease liabilities and bank borrowings as disclosed in note 23 and note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital disclosed in note 21 and reserves.

The management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, as well as bank borrowings and the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 **HK$'000**	2019 HK$'000
Financial assets at amortised cost		
– Trade and other receivables	**243,379**	293,963
– Cash and cash equivalents	**154,699**	133,832
	398,078	427,795
Financial liabilities at amortised cost		
– Trade and other payables	**103,852**	120,018
– Bank borrowings	**12,627**	23,030
	116,479	143,048

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 and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign exchange risk and interest rate risk), credit risk 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 in a timely and effective manner.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Foreign exchange risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. Several subsidiaries of the Company have foreign currency bank balances, trade and other receivables, trade and other payables and unsecured bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities which expose the Group to foreign currency risk.

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

	Assets		Liabilities	
	2020	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000
US dollar ("US$")	**137,227**	198,774	**30,155**	32,692
HK$ *(Macau Pataca ("MOP") as functional currency)*	**3,778**	667	**18,223**	29,499
Renminbi ("RMB")	**3,215**	3,354	**9,514**	8,476
Australian dollar ("AUD")	**4,538**	–	**–**	–
Canadian dollar ("CAD")	**3,663**	76	**–**	–
Others	**2,708**	1,692	**37**	37
Intra-group balances				
US$	**2,078,219**	1,972,792	**1,895,806**	1,780,098

Certain amounts of monetary assets and monetary liabilities are denominated in US$ with amounts of HK$1,904,748,000 and HK$1,698,965,000 respectively, in group entities where HK$ or MOP are the functional currencies. As HK$ and MOP are linked with US$, no material fluctuation is expected for these relevant group entities and therefore such amounts are not included in sensitivity analysis. For other group entities having significant US$ financial assets and financial liabilities where HK$ and MOP is not the functional currency, management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency sensitivity analysis

The Group is mainly exposed currency risk related to US$, RMB, AUD and CAD.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in the functional currency of the group entities against the relevant foreign currencies. 5% (2019: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2019: 5%) change in foreign currency rates. The sensitivity analysis also include intra-group balances where the denomination of the amount is in a currency other than the functional currency of the relevant group entities. The analysis illustrates the impact for a 5% (2019: 5%) strengthening of the functional currency of the relevant group entities against the relevant currency and a positive and negative number below indicates an increase and a decrease in profit respectively. For a 5% (2019: 5%) weakening of the functional currency of the relevant group entities against the relevant currency, there would be an equal and opposite impact on the profit.

	2020 **HK$'000**	2019 HK$'000
US$	**4,487**	3,683
RMB	**(259)**	(202)
AUD	**197**	–
CAD	**153**	3

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate lease liabilities (see note 23 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 20 for details) and variable-rate bank borrowings (see note 26 for details). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and HIBOR arising from the Group's Hong Kong dollar denominated borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

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.

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 outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2019: 50 basis points) increase or decrease in variable-rate bank borrowing represents management's assessment of the reasonably possible change in interest rates.

Bank balances are excluded from sensitivity analysis as the management considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2020 would decrease/increase by HK$53,000 (2019: HK$105,000).

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.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

As at 31 December 2020, the Group has concentration of credit risk on trade receivables from the Group's largest customer representing approximately 27% (2019: 26%) of the total trade receivables. As at 31 December 2020, trade receivables from the five largest customers representing approximately 66% (2019: 66%) of the total trade receivables. During the year ended 31 December 2020, with reference to the unstable market condition due to COVID-19, the Group reviews the recoverable amount of each individual trade receivable with significant outstanding balance regularly to ensure that adequate credit losses are made for irrecoverable amounts. For the trade receivable with insignificant balance, the Group reviews collectively based on shared credit risk characteristics by reference to the Groups' aging of the outstanding balances.

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. The Group applies simplified approach on non-credit-impaired trade receivables to provide for ECL and assessed credit-impaired balances individually. To measure the ECL, except for those which has been determined as credit-impaired of HK$3,099,000 (2019: HK$4,764,000), trade receivables of HK$143,136,000 (2019: HK$179,768,000) 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 positions; and using a collective assessment for the remaining balances of HK$93,281,000 (2019: HK$106,032,000), 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.

Cash and cash equivalents

The credit risk for bank balances as at 31st December, 2019 and 2020 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 12m 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, 2020 and 2019, the Group assessed the ECL for cash and cash equivalents are insignificant and thus no loss allowance is recognised.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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 12m ECL. For the years ended 31st December, 2020 and 2019, the Group assessed the ECL for other receivables and deposits are insignificant and thus no loss allowance is recognised.

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	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m 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

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Other receivables and deposits (Continued)

The table below details 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 2020 HK$'000	Gross carrying amount 2019 HK$'000
Financial assets at amortised cost						
Trade receivables – contracts with customers	*19*	–	Low risk	Lifetime ECL (not credit-impaired and assessed individually)	**98,959**	126,219
		–	Watch list	Lifetime ECL (not credit-impaired and assessed individually)	**44,177**	53,549
		–	*(Note 1)*	Lifetime ECL (not credit-impaired and assessed by collective assessment)	**93,281**	106,032
		–	Loss	Credit-impaired	**3,099**	4,764
		–			**239,516**	290,564
Other receivables and deposits	*19*	–	*(Note 2)*	12m ECL (not credit-impaired and assessed individually)	**10,379**	12,785
Cash and cash equivalents	*20*	Aa2 to Baa1	–	12m ECL (not credit-impaired and assessed individually)	**154,699**	133,832

Notes:

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 on a collective basis, grouped by internal credit rating and past due status.

2. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31st December, 2020 and 2019, the other receivables and deposits are either not past due or with no fixed repayment terms.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its trade receivables. The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$143,136,000 and HK$3,099,000 respectively as at 31st December, 2020 (2019: HK$179,768,000 and HK$4,764,000) were assessed individually.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on collective assessment as at 31st December, 2020 and 31st December, 2019 within lifetime ECL (not credit-impaired).

	2020		2019	
	Average loss rate %	**Gross carrying amount HK$'000**	Average loss rate %	Gross carrying amount HK$'000
Low risk	**0.6**	**55,398**	0.5	53,998
Watch list	**2.3**	**37,883**	1.6	52,034
		93,281		106,032

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

	Lifetime ECL (individual and collective assessment – not credit–impaired) HK$'000	Lifetime ECL (individual assessment – credit-impaired) HK$'000	Total HK$'000
At 1st January, 2019	3,655	18,373	22,028
Changes due to financial instruments recognised as at 1st January:			
– Impairment losses recognised	–	662	662
– Impairment losses reversed	(3,552)	(2,797)	(6,349)
– Write-offs	(103)	(11,474)	(11,577)
New financial assets originated	4,618	–	4,618
Exchange adjustments	4	–	4
At 31st December, 2019	4,622	4,764	9,386
Changes due to financial instruments recognised as at 1st January:			
– Transfer to credit impaired	(19)	19	–
– Impairment losses recognised	–	4,474	4,474
– Impairment losses reversed	(4,603)	(1,195)	(5,798)
– Write-offs	–	(4,963)	(4,963)
New financial assets originated	3,417	–	3,417
At 31st December, 2020	3,417	3,099	6,516

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 amounts are over 2 years past due, whichever occurs earlier.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. For the unsecured bank borrowing, the directors of the Group do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Group believe that such bank loans as at 31 December 2020 will be repaid between one to five years (2019: one year) after the end of the reporting period in accordance with the scheduled repayment dates and the aggregate principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Effective interest rate	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, 2020								
Trade and other payables	N/A	70,552	33,300	–	–	–	103,852	103,852
Bank borrowings	2.05	–	4,763	2,039	6,387	–	13,189	12,627
Lease liabilities	5.50	–	23,214	18,975	37,386	33,561	113,136	82,822
		70,552	61,277	21,014	43,773	33,561	230,177	199,301
At 31st December, 2019								
Trade and other payables	N/A	77,429	42,589	–	–	–	120,018	120,018
Bank borrowings	2.82	–	23,083	–	–	–	23,083	23,030
Lease liabilities	5.70	–	17,528	16,003	43,334	36,630	113,495	80,066
		77,429	83,200	16,003	43,334	36,630	256,596	223,114

Fair value of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

33. 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.

	Lease liabilities HK$'000 *(Note 23)*	Bank borrowings HK$'000 *(Note 26)*	Dividend payable (included in other payables) HK$'000 *(Note 24)*	Total HK$'000
At 1st January, 2020	80,066	23,030	464	103,560
Financing cash flows	(23,301)	(10,674)	(34,029)	(68,004)
Non-cash changes				
Dividend declared	–	–	34,029	34,029
Foreign currency translation	–	(218)	–	(218)
Interest expenses	4,869	489	–	5,358
New leases entered/lease modification	22,330	–	–	22,330
Early termination	(1,142)	–	–	(1,142)
	26,057	271	34,029	60,357
At 31st December, 2020	**82,822**	**12,627**	**464**	**95,913**

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Lease liabilities HK$'000 *(Note 23)*	Bank borrowings HK$'000 *(Note 26)*	Loan from third parties HK$'000	Dividend payable (included in other payables) HK$'000 *(Note 24)*	Total HK$'000
At 1st January, 2019	50,619	36,502	256,556	224	343,901
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
Lease modification	46,577	–	–	–	46,577
Non-cash transaction as disclosed in Note 17	–	–	(256,556)	–	(256,556)
	2,686	1,421	(254,973)	79,641	(124,648)
At 31st December, 2019	80,066	23,030	–	464	103,560

34. 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.

Compensation of key management personnel

The remuneration of directors which also are key management during the year was as follows:

	2020 **HK$'000**	2019 HK$'000
Salaries and other short-term employee benefits	**8,794**	9,802
Post-employment benefits	**153**	181
	8,947	9,983

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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ operation	Particulars of issued/paid-in capital	Proportion ownership interest held by the Company		Principal activities
			2020	2019	
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%**	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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Particulars of issued/paid-in capital	Proportion ownership interest held by the Company		Principal activities
			2020	2019	
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
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%	Manufacturing and trading of lighting products

Note: MPMZ is a wholly foreign owned enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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	
		2020	2019	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
Fern-Howard Limited	The United Kingdom	**35%**	35%	**(2,597)**	(3,506)	**(5,743)**	(3,146)

Summarised financial information 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

	2020 HK$'000	2019 HK$'000
Non-current assets	**70**	4,549
Current assets	**27,415**	35,251
Non-current liabilities	**(424)**	(412)
Current liabilities	**(54,228)**	(58,150)
Total equity	**(27,167)**	(18,762)
Revenue	**25,908**	48,477
Loss for the year	**(7,418)**	(10,019)
Total comprehensive expense for the year	**(8,405)**	(11,207)
Net cash inflow from operating activities	**11,431**	600
Net cash inflow from investing activities	**474**	488
Net cash outflow from financing activities	**(9,765)**	(373)
Cash inflow	**2,140**	715

36. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	2020 HK$'000	2019 HK$'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**447,166**	466,317
Amount due from a subsidiary	**393,046**	377,128
	840,212	843,445
Current assets		
Deposits and prepayments	**153**	293
Amounts due from subsidiaries	**139,878**	132,008
Cash and cash equivalents	**1,146**	244
	141,177	132,545
Total assets	**981,389**	975,990
Equity and liabilities		
Capital and reserves attributable to owners of the Company		
Share capital	**75,620**	75,620
Reserves *(Note)*	**610,268**	641,789
Total equity	**685,888**	717,409
LIABILITIES		
Current liabilities		
Other payables and accruals	**1,824**	1,766
Amounts due to subsidiaries	**293,677**	256,815
Total liabilities	**295,501**	258,581
Total equity and liabilities	**981,389**	975,990

36. STATEMENT OF FINANCIAL POSITION AND RESERVE 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	Contributed surplus HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
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
At 1st January, 2020	189,090	19,689	3,661	21,433	407,916	641,789
Profit and total comprehensive expense for the year	–	–	–	–	2,508	2,508
Dividends paid *(Note 12)*	–	–	–	–	(34,029)	(34,029)
Lapse of share options	–	–	–	(21,433)	21,433	–
At 31st December, 2020	189,090	19,689	3,661	–	397,828	610,268

Financial Summary

	For the year ended 31st December,				
	2016 HK$'000	2017 HK$'000	2018* HK$'000	2019* HK$'000	**2020** **HK$'000**
RESULTS					
Revenue	1,247,218	1,434,008	1,353,665	1,316,101	**901,141**
Profit before income tax	135,275	106,882	126,235	147,323	**8,932**
Income tax (expenses) credit	(12,621)	1,648	1,874	(7,828)	**(941)**
Profit for the year	122,654	108,530	128,109	139,495	**7,991**
Attributable to:					
The owners of the Company	122,654	112,670	134,960	143,001	**10,588**
Non-controlling interests	–	(4,140)	(6,851)	(3,506)	**(2,597)**
	122,654	108,530	128,109	139,495	**7,991**
	HK$	HK$	HK$	HK$	**HK$**
Earnings per share					
Basic	0.16	0.15	0.18	0.19	**0.01**
Diluted	0.16	0.15	0.18	0.19	**0.01**

	As at 31st December,				
	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	**2020** **HK$'000**
Total assets	1,182,432	1,307,086	1,562,530	1,432,923	**1,374,342**
Total liabilities	(202,250)	(279,528)	(477,990)	(291,103)	**(258,702)**
	980,182	1,027,558	1,084,540	1,141,820	**1,115,640**
Equity attributable to the owners of the Company	980,182	1,020,347	1,084,180	1,144,966	**1,121,383**
Non-controlling interests	–	7,211	360	(3,146)	**(5,743)**
	980,182	1,027,558	1,084,540	1,141,820	**1,115,640**

* The amounts for the years ended 31st December, 2018 were presented upon the application of HKFRS 9 and HKFRS 15, and the amounts for the year ended 31st December, 2019 were presented upon the application of HKFRS 9, HKFRS 15 and HKFRS 16, which the comparative financial information was not restated.

This annual report is published in both English and Chinese, should any conflict regarding meaning arises, the English version shall prevail.