

Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1120



2020

ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

CHIEF EXECUTIVE OFFICER

NG Yat Shan
(appointed on 23rd February, 2021)

COMPANY SECRETARY

CHOI Pui Yiu

AUDITOR

RSM Hong Kong

LEGAL ADVISERS

Stephenson Harwood
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE

www.artsgroup.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

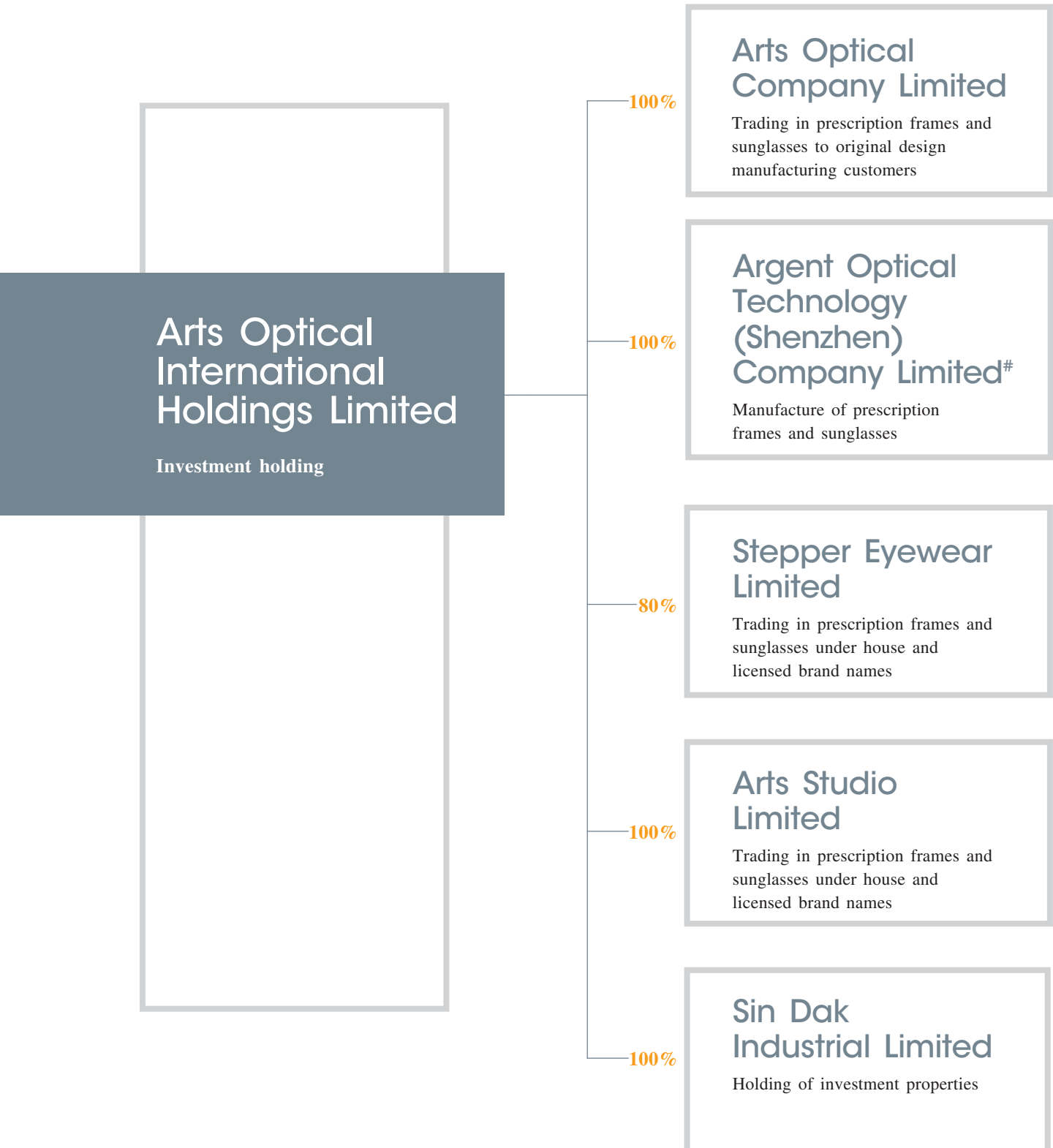
Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Group Structure

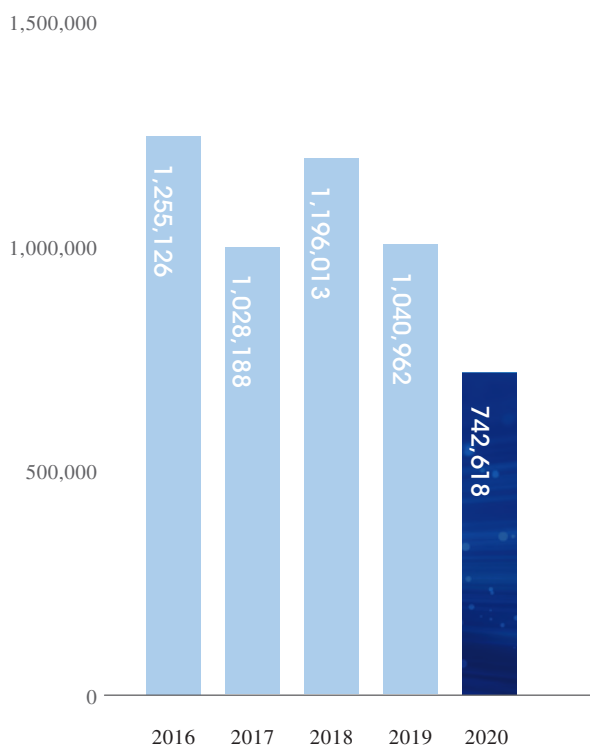
At 31st December, 2020



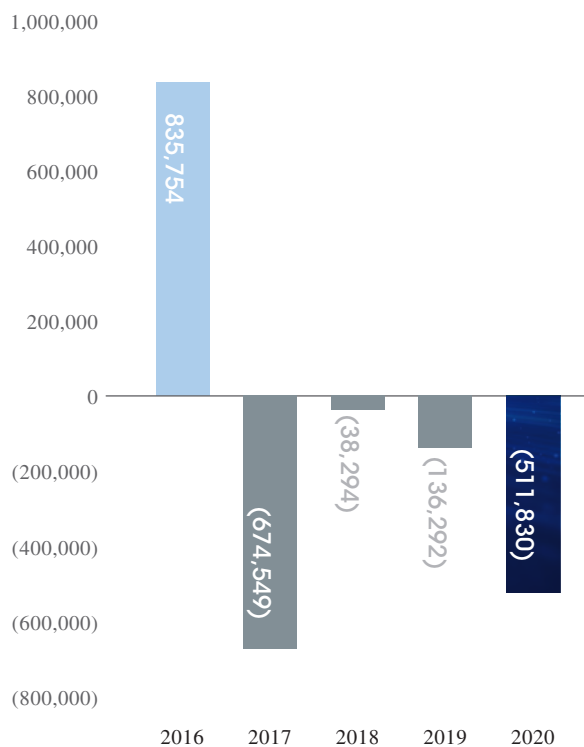
[#] The Company's name has been changed to Arts Opti Lab (Shenzhen) Company Limited with effect from 4th February, 2021.

Financial Highlights

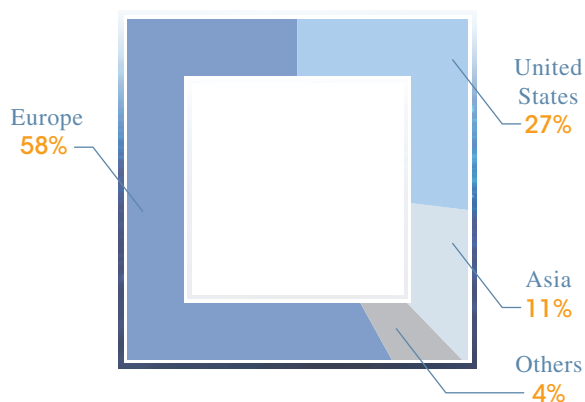
Consolidated revenue (HK\$'000)



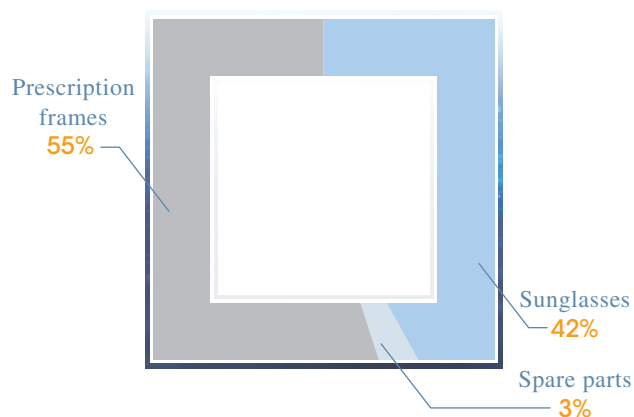
Profit (loss) attributable to owners of the Company (HK\$'000)



Consolidated revenue by geographical locations in 2020



Revenue of ODM division by product range in 2020



The logo for Arts Group is displayed in a stylized, white, three-dimensional font against a dark blue, textured wall. The word 'Arts' is written in a cursive script, while 'Group' is in a clean, sans-serif font.

BUSINESS REVIEW

Profitability analysis

The business environment was unprecedentedly challenging during the year under review as the global business activities have significantly slowed down since the outbreak of COVID-19 early this year. Given such a backdrop, the Group has recorded a significant decrease in consolidated revenue by 29% to HK\$742.6 million in the financial year ended 31st December, 2020 (2019: HK\$1,041.0 million).

For the year under review, the Group recorded a loss attributable to owners of the Company and a loss per share of HK\$170.7 million and 44.21 HK cents respectively (2019: a loss attributable to owners of the Company and a loss per share of HK\$136.3 million and 35.28 HK cents respectively) before impairment loss of property, plant and equipment was recognised. In addition, a non-operational impairment loss of HK\$341.1 million for property, plant and equipment was recorded due to significant decrease in demand from customer orders and revenue, the management considered that the recovery of revenue to a normal level may take several years. As a result, total loss attributable to owners of the Company and loss per share increased to HK\$511.8 million and HK\$1.33 respectively after including the impairment loss.

Chairman's Statement

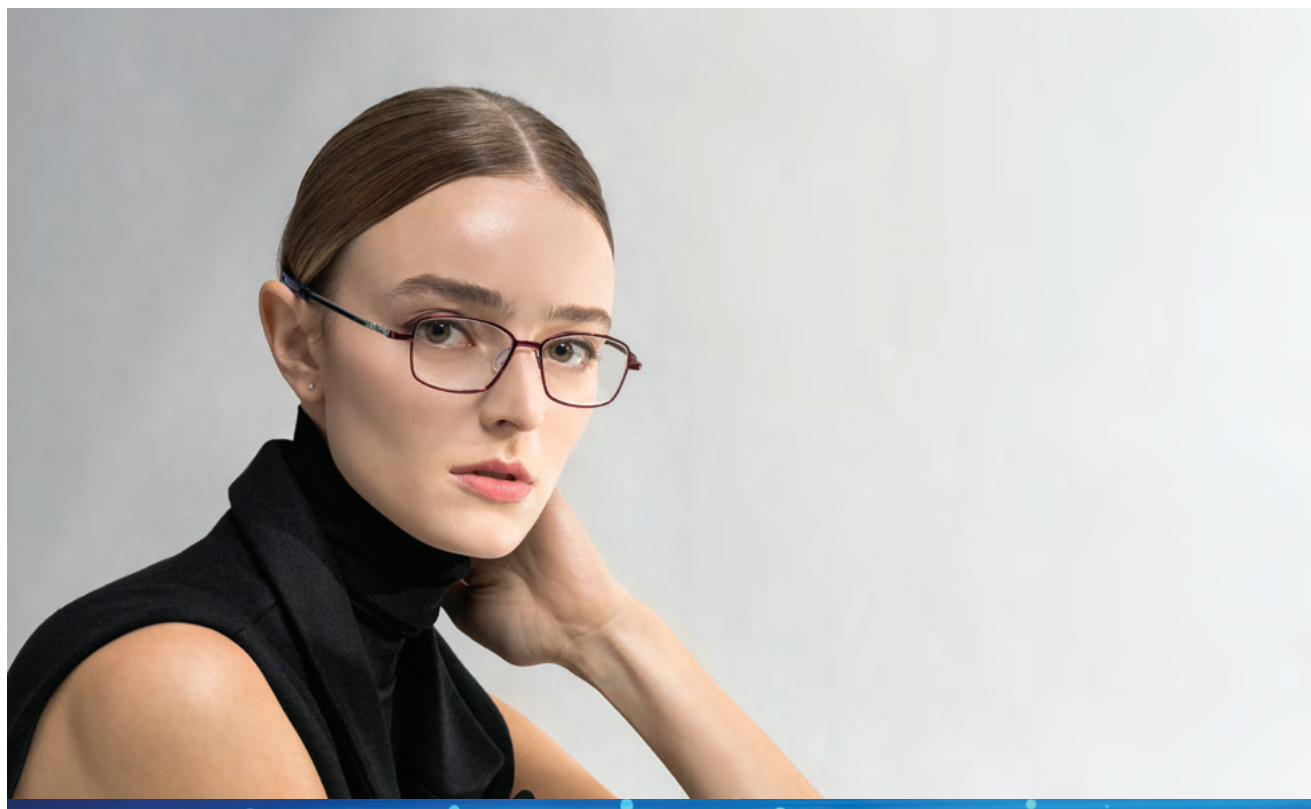
Other than the impairment loss mentioned above, the increase of loss reported for the year of 2020 compared to 2019 was mainly attributable to the following non-routine operation factors:

- (i) the Group recorded a fair value loss on the revaluation of investment properties of HK\$31.4 million for the year ended 31st December, 2020;
- (ii) the negative impact on the profitability of the Group arising from diseconomies of scale as the Group's consolidated revenue decreased by 29% in 2020 as compared with 2019; and
- (iii) the Group had incurred a HK\$13.9 million of economic compensation during the year under review for layoff of idle staff in Mainland China.

Original design manufacturing (“ODM”) division

Our ODM division continued to be the key revenue contributor and revenue generated by this division contributed to 75% of the consolidated revenue of the Group in 2020 (2019: 74%). Sales to ODM customers decreased significantly by 28% from HK\$775.3 million in 2019 to HK\$556.8 million in 2020. Geographically, sales to customers in Europe, the United States (the “US”), Asia and other regions accounted for 57%, 30%, 11% and 2% respectively of the revenue of the ODM division in 2020 (2019: 62%, 26%, 10% and 2% respectively). Sales to Europe, the US, Asia and other regions reduced by 35%, 16%, 17% and 38% respectively. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2020. Sales of prescription frames, sunglasses and spare parts accounted for 55%, 42% and 3% respectively of revenue of the ODM division in 2020 (2019: 54%, 43% and 3% respectively).





Distribution division

Revenue generated by the distribution division also decreased significantly by 30% from HK\$265.6 million in 2019 to HK\$185.8 million in 2020 and accounted for 25% of the consolidated revenue of the Group in 2020 (2019: 26%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, Germany, China and South Africa, and independent distributors in other countries. Sales to Europe, the US, Asia and other regions accounted for 61%, 16%, 11% and 12% respectively of the revenue of the distribution division in 2020 (2019: 57%, 9%, 19% and 15% respectively). Europe was still the biggest market for the distribution division and sales to Europe reduced by 26% compared to the year of 2019. Sales to Asia and other regions also reduced by 61% and 42% respectively. On the other hand, sales to the US increased by 30%. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK\$49.4 million (2019: HK\$52.0 million). The result in net cash inflow is mainly due to a decrease in inventories and debtors balances by HK\$12.3 million and HK\$41.6 million respectively at the end of 2020 and which are in line with the sales decrease in the year of 2020 compared with 2019. The net cash position of the Group (being the bank balances and cash less bank borrowings) decreased from HK\$216.3 million as at 31st December, 2019 to HK\$192.8 million as at 31st December, 2020.

Chairman's Statement

Working capital management

In line with the decline in revenue during the period under review, the inventory balance and total amount of trade debtors and bills receivable balances decreased by 9% and 17% respectively from HK\$141.4 million and HK\$244.9 million as at 31st December, 2019 to HK\$129.1 million and HK\$203.3 million as at 31st December, 2020. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 60 days in 2019 to 81 days in 2020 because more inventories were built up at year end for delivery to overseas customers prior to the Chinese New Year holidays in early February of 2021. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased from 86 days in 2019 to 100 days in 2020 because the majority of customers had negotiated for payment extension as result of the negative impact of COVID-19. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 1.6 as at 31st December, 2019 to 1.3 as at 31st December, 2020.

Gearing position

The Group maintained a low gearing position throughout 2020. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) increased slightly from 1% as at 31st December, 2019 to 3% as at 31st December, 2020. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK\$7.8 million as at 31st December, 2020 (31st December, 2019: HK\$9.4 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 31st December, 2020 and 31st December, 2019 with equity attributable to owners of the Company of HK\$426.5 million and HK\$896.7 million as at 31st December, 2020 and 31st December, 2019 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2020 was HK\$1.10 (31st December, 2019: HK\$2.32).

Contingent liabilities

As at 31st December, 2020, the Group did not have significant contingent liabilities (31st December, 2019: nil).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as the above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi. The Group noted that there was potential exposure to the rapid change of Renminbi during the second half of 2020 and the Group managed foreign exchange risk by closely monitoring the movements of the foreign currency rates and entered into forward contracts whenever appropriate.



Chairman's Statement

PROSPECTS

While there are many countries around the world which have begun mass vaccination programme with COVID-19, it is expected that the disappearance of COVID-19 from the world is not likely to happen in the next two years. Moreover, there is no sign of relief in the trade tension between China and the US after the change of presidency of the US presidential election in January 2021. As a result, the management anticipates that the market demand for eyewear products in the future will be volatile and it takes time for the Group's business volume to be fully restored to pre-pandemic level.

Going forward, the management expects that changes in consumption patterns of the customers after the market recovers from the alleviation of COVID-19 will accelerate the popularity of online business of the eyewear industry. With the growth of e-commerce and the rise of mobile-friendly websites and applications, it is easier than ever for people to order and receive eyewear with prescription lens without making a trip to a professional optical shop. As management see ample opportunities for continuous growth in online business, the Group had acquired 55% equity interest of an optical lens company in Danyang City, Jiangsu Province of China. With the acquisition of the optical lens company, the Group will be able to provide a one-stop solution to support our customers and thus generate more revenue in the future.

DIVIDENDS

The Board did not recommend the payment of a final dividend (2019: nil) for the year ended 31st December, 2020.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 3rd June, 2021 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 p.m. on 28th May, 2021
Closure of register of members	31st May, 2021 to 3rd June, 2021 (both dates inclusive)
Record date	3rd June, 2021

During the above closure period, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in late-April 2021.

Chairman's Statement

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 29th March, 2021

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael (“Mr. Ng”), aged 66, is an executive director of the Company and the founder as well as the chairman of the Group. Mr. Ng is responsible for corporate policy making and strategic planning of the Group. He has 53 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. He was admitted as an Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the “HKOMA”) during 2002 and 2006 and is currently an executive committee member of the HKOMA and a Life Honorary President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 65, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 36 years of experience in the optical products industry and is the brother of Mr. Ng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 54, is an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong is also an independent non-executive director for Bonjour Holdings Limited, Kin Yat Holdings Limited and C&D International Investment Group Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Wong obtained a bachelor’s degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. He has 33 years of experience in the accountancy profession. Other than his private practice in accounting, he has been admitted as a solicitor at the High Court on 9th March, 2019 and currently a practising solicitor in a law firm as a consultant. Mr. Wong joined the Group in 2004.

CHUNG Hil Lan Eric, aged 55, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a bachelor’s degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 33 years of experience in the accountancy profession and is currently the owner of Eric H. L. Chung & Co., a certified public accounting firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 56, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Lam is also an independent non-executive director for Telecom Digital Holdings Limited which is listed on the Main Board of the Stock Exchange. Mr. Lam obtained a bachelor’s degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong. Mr. Lam has 33 years of experience in the accountancy profession and is currently a partner of Zhonghui Anda CPA Limited, a certified public accounting firm in Hong Kong. He joined the Group in 2011.

Biographical Details of Directors and Management

SENIOR MANAGEMENT

NG Yat Shan, aged 41, is the chief executive officer of the Group and responsible for implementing business strategies and operational management of the Group. Ms. Ng joined the Group in 2002 and has been a director of various subsidiaries of the Company since 2011. Ms. Ng was promoted to the Group's chief executive officer in February 2021. Ms. Ng obtained a Master of Business Administration degree from European University (currently known as EU Business School) in 2013 and received fellowship from The Professional Validation Council of Hong Kong Industries in 2020. Ms. Ng is the daughter of Mr. Ng, an executive director, the chairman of the Board and a controlling shareholder of the Company, and the niece of Mr. Ng Kim Ying, an executive director.

CHOI Pui Yiu, aged 56, is the chief financial officer and the company secretary of the Group. Mr. Choi joined the Group in 2017 and is responsible for the Group's finance, accounting and company secretarial matters. He obtained a bachelor's degree in Science from the Northeast Missouri State University of the United States of America and a master's degree in Management from the Dongbei University of Finance and Economics of the PRC in 1988 and 2005 respectively. Mr. Choi is a member of Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has 32 years of experience in the accountancy profession and has extensive exposure to various manufacturing industries.

LI Chi Hung, aged 60, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 45 years of experience in the optical products industry.

CHU Chung Wah, aged 40, is the deputy chief executive officer of the Group. Mr. Chu joined the Group in 2005 as a technician trainee and he had served the Group for over 15 years in various position. Mr. Chu was promoted to the Group's deputy chief executive officer in February 2021 and was responsible for assisting Ms. Ng in implementing business strategies and new business development of the Group. Mr. Chu had obtained a Master of Engineering Management degree from University of Technology Sydney in 2017 and received fellowship of Optical Industry from The Professional Validation Council of Hong Kong Industries in 2018.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and joint venture are the manufacture of, and trading in, prescription frames and sunglasses as well as property holding, which are set out in notes 22, 25 and 26 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in the Chairman's Statement set out on pages 5 to 10 of this Annual Report. This discussion forms part of this Directors' Report.

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 pages 39 to 40 of this Annual Report.

The Board did not recommend the payment of a final dividend for the year ended 31st December, 2020.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 133 of this Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2020 were as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contributed surplus	105,369	105,369
Retained earnings	3,957	3,944
	109,326	109,313

Directors' Report

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Ng Hoi Ying, Michael
Ng Kim Ying

Independent non-executive directors:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Chung Hil Lan Eric and Mr. Ng Kim Ying will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each of the independent non-executive directors was appointed for a term of not more than three years and is subject to the retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out by the Group during the year are set out in note 48 to the consolidated financial statements. The aforesaid related party transactions did not constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company or their close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the directors of the Company and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions and damages which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties. The Company has arranged appropriate directors' and officers' liability insurance for its directors and officers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2020, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of 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 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Shares in the Company (Long Positions)

Name of director	Number of issued ordinary shares held				Approximate percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests	Total	
Ng Hoi Ying, Michael	2,856,000	19,656,000	153,600,000 (Note)	176,112,000	45.59%
Ng Kim Ying	23,126,347	5,000,000	—	28,126,347	7.28%

Note: These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the settlor of which is Mr. Ng Hoi Ying, Michael and the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

Save as disclosed above, as at 31st December, 2020 none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors of the Company, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2020, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO recorded that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	153,600,000 (Note a)	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000 (Note a)	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000 (Note a)	39.77%
Wu Zhihong	Beneficial owner	19,656,000 (Note a)	5.09%
FMR LLC	Held by controlled corporation	30,870,000 (Note b)	7.99%
Fidelity Puritan Trust	Beneficial owner	23,158,400 (Note c)	6.00%
David Michael Webb	Beneficial owner	9,777,000 (Note d)	2.53%
	Held by controlled corporation	21,125,000 (Note e)	5.47%
Preferable Situation Assets Limited	Beneficial owner	21,125,000 (Note e)	5.47%

Notes:

- (a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust, the settlor of which is Mr. Ng Hoi Ying, Michael ("Mr. Ng") and the beneficiaries of which included Mr. Ng. Under The Arts 2007 Trust, 153,600,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL. According to an individual substantial shareholder notice filed by Mr. Ng on 17th January, 2020, as at 15th January, 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 17th January, 2020), 19,656,000 shares of the Company were held directly by his wife, Ms. Wu Zhihong.

Directors' Report

- (b) According to a corporate substantial shareholder notice filed by FMR LLC on 5th November, 2018 (with the date of the relevant event as set out in the corporate substantial shareholder notice being 31st October, 2018), FMR LLC held 30,870,000 shares of the Company indirectly through FMR Co., Inc.. FMR Co., Inc. is wholly-owned by Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 30,870,000 shares of the Company held by FMR Co., Inc., 3,488,000 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 3,700,000 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 49% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.
- (c) According to a corporate substantial shareholder notice filed by Fidelity Puritan Trust on 28th January, 2019, as at 23rd January, 2019 (i.e. the date of the relevant event as set out in the corporate substantial shareholder notice filed on 28th January, 2019), 23,158,400 shares of the Company were held directly by Fidelity Puritan Trust.
- (d) According to an individual substantial shareholder notice filed by Mr. David Michael Webb ("Mr. Webb") on 3rd April, 2020, as at 31st March, 2020 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 3rd April, 2020), 9,777,000 shares of the Company were held directly by Mr. Webb.
- (e) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. Webb was deemed to be interested in the 21,125,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2020.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2020, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 43% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 17% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 22% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 8% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers mentioned above.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2020 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Based on information which is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float as at the date of this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. It puts great emphasis on environmental protection and sustainable development. The Group has actively promoted a material-saving and environmentally friendly working environment so as to protect the environment and reduce consumption.

A separate report on environmental, social and governance matters will be published within three months after the publication of this Annual Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

So far as the Company is aware, the Group has complied with all relevant laws and regulations promulgated by the relevant regulatory bodies that have a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands that employees are valuable assets and provides a harmonious, safe and professional working environment and a competitive remuneration package to its employees. Details of the emolument policy of the Group are disclosed under the heading "Emolument Policy" of this report.

The Group maintains a close partnership with its customers and suppliers to fulfil its immediate and long-term goals. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

EMOLUMENT POLICY

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

The emoluments of the executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong. The emoluments of the independent non-executive directors of the Company were recommended by the Board and approved by the shareholders at the annual general meeting held on 23rd May, 2019. The shareholders of the Company authorised the Remuneration Committee to fix the remuneration of the executive directors and independent non-executive directors of the Company at the annual general meeting held on 3rd June, 2020.

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 44 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 21 to 31 of this Annual Report.

EVENTS AFTER THE REPORTING PERIOD

Appointment of chief executive officer

Ms. Ng Yat Shan was appointed as the chief executive officer of the Group with effect from 23rd February, 2021.

Discloseable transaction in relation to the acquisition of 55% equity interest in a target company

On 24th March, 2021, Arts Opti Lab (Shenzhen) Company Limited[^] (雅視司徠柏光學科技(深圳)有限公司), an indirect wholly-owned subsidiary of the Company (the "Purchaser"), Danyang Colorful Optical Glass Company Limited[^] (丹陽市五彩光學眼鏡有限公司) (the "Seller I"), Danyang Zhongjiang Glasses Company Limited[^] (丹陽市中江光學眼鏡有限公司) (the "Seller II"), Danyang Zhongyang Glasses Company Limited[^] (丹陽中洋光學眼鏡有限公司) (the "Seller III"), (Seller I, Seller II and Seller III collectively, the "Sellers") and Stepper & Colors Opti Technology (Jiangsu) Company Limited[^] (五彩司徠柏光學科技(江蘇)有限公司) (the "Target Company") entered into an equity transfer agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Sellers have conditionally agreed to sell an aggregate of 55% equity interest in the Target Company at the total consideration of RMB46.5 million (equivalent to approximately HK\$55.4 million) (the "Consideration"), subject to adjustment. The Purchaser and the Sellers further agreed to inject an aggregate of RMB10 million (equivalent to approximately HK\$11.9 million) to the Target Company in cash based on the percentage of their respective equity holding in the Target Company. Accordingly, the Purchaser will inject its portion of RMB5.5 million (equivalent to approximately HK\$6.5 million) in cash after completion of the transfer of the 55% equity interest to the Purchaser; and the Sellers will inject their portion of RMB4.5 million (equivalent to approximately HK\$5.4 million) after receipt of the balance payment of the Consideration from the Purchaser.

[^] The English translation of the Chinese name of the relevant entity included in this paragraph is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its Chinese name.

Directors' Report

Details of significant events occurring after the reporting period are set out in note 49 to the consolidated financial statements.

Save as disclosed, there are no important events affecting the Group which have occurred after the end of financial period for the year ended 31st December, 2020 and up to the date of this Annual Report.

AUDITOR

Deloitte Touche Tohmatsu resigned as the auditor of the Company with effect from 29th November, 2019. RSM Hong Kong ("RSM") was appointed as the auditor to fill the vacancy and its appointment was approved by the shareholders of the Company at the special general meeting held on 30th December, 2019.

The consolidated financial statements of the Group for the year ended 31st December, 2019 and for the year ended 31st December, 2020 were audited by RSM, who will retire at the conclusion of the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-appointment.

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 29th March, 2021

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code on corporate governance practices. The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31st December, 2020, except for deviation from code provision A.2.1 of the CG Code as disclosed under the paragraph “Chairman and Chief Executive Officer” below.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the “Directors”). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2020.

BOARD OF DIRECTORS

At 31st December, 2020, the Board comprises five Directors, two of whom are executive Directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, and three are independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

During the year ended 31st December, 2020, four Board meetings and one general meeting were held. The attendance of each Director is set out as follows:

Directors	Attendance Record	
	Board meetings	General meeting
Ng Hoi Ying, Michael (<i>Chairman</i>)	4/4	1/1
Ng Kim Ying	4/4	1/1
Wong Chi Wai	4/4	1/1
Chung Hil Lan Eric	4/4	1/1
Lam Yu Lung	4/4	1/1

Apart from the above regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of the other Director during the year.

The Board is responsible for the formulation of the key business and strategic decisions of the Company and its subsidiaries (collectively the “Group”) and monitoring the performances of the management team. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group’s business to the management team.

Mr. Ng Hoi Ying, Michael, the Chairman of the Board and an executive director and Mr. Ng Kim Ying, an executive director, are brothers. Save for disclosed above, there is no relationship, including financial, business, family or other material/relevant relationship(s) among members of the Board.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skill. The company secretary of the Company (the “Company Secretary”) also updates the Directors on the latest development of the Listing Rules and other applicable regulatory requirements.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

The Directors participated in the following trainings during the year ended 31st December, 2020:

Directors	Types of training
Ng Hoi Ying, Michael	A, C
Ng Kim Ying	C
Wong Chi Wai	A, B, C
Chung Hil Lan Eric	A, C
Lam Yu Lung	A, C

A: attending seminars and/or conferences

B: giving talks at seminars

C: reading newspapers and journals relating to directors' duties and responsibilities as well as updates on the Listing Rules and other applicable regulatory requirements

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group, and Mr. Ng had been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. On 23rd February, 2021, Ms. Ng Yat Shan ("Ms. Ng") was appointed by the Board as the chief executive officer of the Group. Ms. Ng is responsible for implementing business strategies and operational management formulated by the Board. Following the appointment of Ms. Ng as the chief executive officer, the Company has complied with code provision A.2.1 of the CG Code.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Bye-law 87(1) of the bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Bye-law 87(2) of the Bye-laws further provides that the Director(s) to retire by rotation shall be those who have been longest in office since their last re-election or appointment, and as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. According to Bye-law 86(2), any Director appointed by the Board to fill a casual vacancy shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Mr. Chung Hil Lan Eric and Mr. Ng Kim Ying were re-elected as Directors in the annual general meeting of the Company held on 24th May, 2018 and 23rd May, 2019 respectively for a term of not more than 3 years and are subject to retirement by rotation in accordance with the Bye-laws. In accordance with the above-mentioned Bye-laws, Mr. Chung Hil Lan Eric and Mr. Ng Kim Ying will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Their proposed term of office is not more than 3 years and is subject to retirement by rotation in accordance with the Bye-laws.

Corporate Governance Report

BOARD COMMITTEES

To enhance the effectiveness of the management of the Company, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee various aspects of the Company's affairs.

AUDIT COMMITTEE

An audit committee (the "Audit Committee") has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (the chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) the review of the interim and annual reports of the Group as well as of various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties and made recommendations to the Board on the appointment of the external auditor during the year ended 31st December, 2020. Three Audit Committee meetings were held during the year ended 31st December, 2020 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Wong Chi Wai	3/3
Chung Hil Lan Eric	3/3
Lam Yu Lung	3/3

REMUNERATION COMMITTEE

A remuneration committee (the "Remuneration Committee") has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (the chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31st December, 2020 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Chung Hil Lan Eric	1/1
Wong Chi Wai	1/1
Lam Yu Lung	1/1

The major roles and functions of the Remuneration Committee are summarised as follows:

1. to determine the remuneration of the executive Directors, independent non-executive Directors and senior management; and
2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

Corporate Governance Report

REMUNERATION COMMITTEE (continued)

During the year ended 31st December, 2020, the Remuneration Committee has, among other things, reviewed and determined the remuneration packages of the executive Directors, independent non-executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of the Directors' service contracts. The remuneration of independent non-executive Directors as recommended by the Board and approved by the shareholders of the Company at the annual general meeting held on 23rd May, 2019. The shareholders of the Company authorised the Remuneration Committee to fix the remuneration of the executive Directors and independent non-executive Directors at the annual general meeting held on 3rd June, 2020.

Details of the remuneration of the senior management by band are set out in note 16 to the consolidated financial statements.

As at 31st December, 2020, the Group employed approximately 3,200 (31st December, 2019: 4,500) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (the chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, and making recommendations to the Board on the appointment or re-appointment of Directors. The Nomination Committee has performed the above duties during the year ended 31st December, 2020.

The Nomination Committee has adopted a board diversity policy in 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving sustainable and balanced development, the Company views increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates will be based on a range of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board and the Nomination Committee are dedicated to the achieve board diversity of the Company.

One Nomination Committee meeting was held during the year ended 31st December, 2020 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Lam Yu Lung	1/1
Wong Chi Wai	1/1
Chung Hil Lan Eric	1/1

Corporate Governance Report

NOMINATION POLICY

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

1. character and integrity;
2. qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy adopted by the Company that are relevant to the Company's business and corporate strategy;
3. any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
4. willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;
5. for independent non-executive Directors, whether the candidate would be considered independent with reference to the Listing Rules; and
6. such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following nomination procedures of the Directors:

Appointment of New and Replacement Directors

1. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, and external executive search firms.
2. Upon compilation of the list of potential candidates and interviews of the potential candidate, the relevant Nomination Committee will shortlist candidates for consideration by themselves and/or the Board based on the criteria as set out above and such other factors that it considers appropriate. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by the order of preference based on the criteria as set out above.
3. The Board has the final authority on determining suitable director candidates for appointment.

Corporate Governance Report

NOMINATION POLICY (continued)

Nomination Procedures (continued)

Re-election of Directors and Nomination from Shareholders

1. Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.
2. In case of independent non-executive Directors, the Nomination Committee shall ensure that the independent non-executive Directors meet the criteria of independence as laid down in the Listing Rules.
3. Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must nominate the candidate in accordance with the procedures for shareholders to propose a person for election as a Director adopted by the Company. The Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

The nomination procedures shall be in compliance with the Listing Rules, the Company's memorandum of association and Bye-laws and all applicable laws and regulations.

DIVIDEND POLICY

The Company considers stable and sustainable returns to shareholders to be our goal and endeavours to maintain a progressive dividend policy.

In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account (a) the earnings performance of the Group; (b) the financial position of the Group; (c) the investment requirements of the Group; and (d) the future prospects of the Group.

There can be no assurance that a dividend will be proposed or declared in any given year. If a dividend is proposed or declared, there can be no assurance that the dividend amount will be as contemplated above.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the corporate governance policy of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and
5. to review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2020, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on pages 37 to 38 of this Annual Report.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, Messrs. RSM Hong Kong is set out as follows:

Services rendered	Fees paid/payable <i>HK\$'000</i>
Audit service	1,365
Non-audit services:	
Review on 2020 interim results	100
Tax compliance services	125

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee assists the Board in evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The risk management and internal control systems of the Group comprise a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The annual review of the effectiveness of the risk management and internal control systems of the Group by the Board during the year ended 31st December, 2020 has considered the following:

- the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions as well as the review of risk management and internal control systems;
- the changes in the nature and extent of significant risks during the year and the Group's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;
- the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;
- significant control failings or weaknesses, if any, that have been identified during the year and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and
- the effectiveness of the Group's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee include:

- regular interviews with executive Directors in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- review of significant issues arising from internal control review reports and the external audit report;
- private sessions with external consultants and auditors; and
- review of annual assessment and certification of internal controls from executive Directors, management of overseas subsidiaries and department heads in their areas of responsibility.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Audit Committee has also reviewed papers prepared by executive Directors covering:

- periodic financial reports and accounts;
- preview of annual accounting and financial reporting issues;
- annual internal control review plan;
- whistle-blowing reports;
- report on the Group's internal control systems; and
- reporting of outstanding litigation and compliance issues.

The Board reviews the risk management and internal control systems of the Group annually. With the assistance of an external consultant, Sage Business Services Limited and the Audit Committee, the Board assessed the effectiveness and adequacy of the Group's risk management and internal control systems which covered the process used to identify, evaluate and manage significant risks, all material controls, including financial, operational and compliance controls during the year ended 31st December, 2020. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

The Company currently does not have an internal audit function. The Board had been conducting the review of the effectiveness of the Group's risk management and/or internal control systems with the assistance of external consultants and the Audit Committee since 2006 as the Board believed that this was a cost-efficient and effective approach given the size and operational complexity of the Group. The Board will review the need for an internal audit function on an annual basis.

INSIDE INFORMATION

The Group has in place a Policy on Disclosure of Inside Information (the "Policy") which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to price the listed securities of the Company with the latest available information.

This Policy also provides guidelines to the directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Company's website and Hong Kong Exchanges and Clearing Limited's HKExnews website, according to the requirements of the Listing Rules.

COMPANY SECRETARY

Mr. Choi Pui Yiu has been appointed as the Company Secretary since June 2017. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31st December, 2020.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company carrying the right to vote at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve the requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Making an Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with his/her contact details, addressed to the head office of the Company at the following address or facsimile number or via email:

Arts Optical International Holdings Limited
Unit 308, 3/F, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Facsimile number: (852) 2195 8994
Email: eddie.choi@artsgroup.com
Attention: Company Secretary

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically. The executive Directors shall review the enquiries and assign different kinds of enquiries to the appropriate division heads/managers for answering. After receiving the answers from the relevant division heads/managers, the Company Secretary will collate the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply to each enquiry in writing.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company, specifying his/her shareholding information, contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Corporate Governance Report

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2020. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders' Communication Policy

The Company has adopted a Shareholders Communication Policy since 2012 with the objective of ensuring that the Company's shareholders are provided with ready, equal and timely access to balanced and user-friendly information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company.

Independent Auditor's Report



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TO THE SHAREHOLDERS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED *(Incorporated in Bermuda with limited liability)*

OPINION

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 39 to 132, 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 (the “HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) 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.

Independent Auditor's Report

KEY AUDIT MATTERS

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

1. Estimated impairment of property, plant and equipment, and right-of-use assets
2. Valuation of investment properties
3. Impairment assessment of trade debtors

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>1. Estimated impairment of property, plant and equipment, and right-of-use assets</p> <p><i>Refer to note 21 to the consolidated financial statements</i></p> <p>At 31st December, 2020, the Group held HK\$101,566,000 (net of accumulated impairment of approximately HK\$843,438,000) of property, plant and equipment, and right-of-use assets.</p> <p>We identified the estimated impairment of property, plant and equipment, and right-of-use assets as a key audit matter due to the judgements and estimation that are required in the determining the recoverable amount for impairment assessment of an individual asset or the cash-generation unit to which the asset belongs.</p> <p>When a review of impairment is conducted, the recoverable amount is generally based on value in use calculations which require management assumptions. These assumptions relate to discount rates applied and forecast sales growth and margins which are subject to estimation.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none">• Assessing management's process in identifying any impairment indicators for property, plant and equipment, and right-of-use assets;• Challenging and assessing the reasonableness of management's key assumptions including discount rates and forecast sales growth rate and margins adopted in the forecast of future cash flows by management and checking its mathematical accuracy;• Discussing management's key assumptions with the specialist appointed by the Group; and• Assessing the sensitivity analyses performed by management and the extent of the impact on the value in use calculations.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>2. Valuation of investment properties</p> <p><i>Refer to note 20 to the consolidated financial statements</i></p> <p>As at 31st December, 2020, the investment properties are located in Hong Kong and carried at HK\$140,490,000. A decrease in fair value of HK\$31,430,000 was recognised in profit or loss for the year ended 31st December, 2020.</p> <p>The Group's investment properties are held at fair value based on the valuations performed by an independent firm of qualified professional valuers (the "Valuers"). Details of the valuation technique and key inputs used in the valuations are disclosed in note 7(c) to the consolidated financial statements. The valuations have been arrived at using an income capitalisation approach. The valuations of investment properties are dependent on certain key inputs, including reversion yield and monthly market rent and contracted monthly rent of similar properties and adjusted based on the Valuers' knowledge of the factors specific to the respective properties.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none">• Assessing the estimates adopted by management of the Group and the Valuers by comparing these estimates to entity-specific information and market data to evaluate the reasonableness of these estimates;• Evaluating the Valuers' competence, capabilities and objectivity;• Evaluating the reasonableness of adjustments made by the Valuers by reference to the similar properties relating to location and size of properties; and• Obtaining rental agreements entered into by the Group and comparing the monthly market rent adopted in the valuation to contracted monthly rent in the rental agreements.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>3. Impairment assessment of trade debtors</p> <p><i>Refer to note 31 to the consolidated financial statements</i></p> <p>As at 31st December, 2020, the Group had gross trade debtors of approximately HK\$210,138,000 and allowance for credit losses of approximately HK\$7,251,000.</p> <p>In general, the credit terms granted by the Group to customers ranged between 30 days to 120 days. Management performed periodic assessments of the recoverability of trade debtors and the sufficiency of allowance for credit losses based on information including credit profile of different customers, ageing of the trade debtors, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.</p> <p>We focused on this area because the impairment assessment of trade debtors under the expected credit losses model involved the use of significant management judgements and estimates.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none">• Assessing whether trade debtors had been appropriately grouped by management based on their shared credit risk characteristics;• Testing the accuracy and completeness of the data used by management to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data;• With the assistance of our internal valuation experts, testing the calculation of the historical loss rate and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions;• Testing the accuracy of the ageing of trade debtors on a sample basis to supporting documents; and• Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade debtors outstanding at the reporting date.

Independent Auditor's Report

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

The directors are responsible for the other information. The other information comprises all the information in the Company's 2020 annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement 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.
- 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.

Independent Auditor's Report

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tam Shing Yu.

RSM Hong Kong
Certified Public Accountants
Hong Kong

29th 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	8	742,618	1,040,962
Cost of sales		(580,411)	(861,625)
Gross profit		162,207	179,337
Other income	9	28,478	16,909
Other gains and losses	10	(62,368)	(5,444)
Impairment losses	12	(343,384)	(9,640)
Distribution and selling expenses		(28,007)	(32,302)
Administrative expenses		(272,496)	(281,214)
Other expenses		(704)	(1,743)
Loss from operations		(516,274)	(134,097)
Finance costs	13	(962)	(886)
Share of profit of an associate		4,937	5,700
Loss before tax		(512,299)	(129,283)
Income tax expense	14	(556)	(2,470)
Loss for the year	15	(512,855)	(131,753)
Other comprehensive income/(expense) after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value change of equity investment at fair value through other comprehensive income ("FVTOCI")		(2,896)	—
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		41,535	(10,914)
Exchange differences arising on translation of an associate		3,520	(1,388)
Realisation of exchange reserve upon deregistration of a subsidiary		(70)	—
		44,985	(12,302)
Other comprehensive income/(expense) for the year, net of tax		42,089	(12,302)
Total comprehensive expense for the year		(470,766)	(144,055)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss)/profit for the year attributable to:			
Owners of the Company		(511,830)	(136,292)
Non-controlling interests		(1,025)	4,539
		(512,855)	(131,753)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(470,114)	(148,757)
Non-controlling interests		(652)	4,702
		(470,766)	(144,055)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
Basic and diluted	19	(132.51)	(35.28)

Consolidated Statement of Financial Position

At 31st December, 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Investment properties	20	140,490	171,920
Property, plant and equipment	21	101,566	458,142
Deposits paid for acquisition of property, plant and equipment		28,130	4,931
Intangible assets	23	5,490	8,149
Goodwill	24	8,260	7,987
Investment in an associate	25	45,725	38,160
Investment in a joint venture	26	—	—
Loan receivable	27	—	—
Equity investment at FVTOCI	28	48	—
Equity investment at fair value through profit or loss (“FVTPL”)	29	8,875	—
Derivative financial instrument	39	1,573	288
Deferred tax assets	40	3,287	3,297
		343,444	692,874
Current assets			
Inventories	30	129,120	141,363
Debtors, deposits and prepayments	31	228,405	273,150
Loan receivable	27	—	—
Other receivables	32	—	—
Tax recoverable		845	—
Bank balances and cash	33	212,563	241,640
		570,933	656,153
Current liabilities			
Creditors and accrued charges	34	390,020	348,097
Contract liabilities	35	5,910	12,253
Refund liabilities	36	4,455	3,287
Consideration payable	25	449	—
Lease liabilities	37	1,039	688
Bank borrowings	38	19,780	25,304
Derivative financial instrument	39	4,261	7,246
Tax liabilities		8,030	11,428
		433,944	408,303
Net current assets		136,989	247,850
Total assets less current liabilities		480,433	940,724

Consolidated Statement of Financial Position

At 31st December, 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities			
Consideration payable	25	1,048	1,388
Lease liabilities	37	2,622	1,377
Deferred tax liabilities	40	7,831	9,365
		11,501	12,130
NET ASSETS		468,932	928,594
Capital and reserves			
Share capital	41	38,626	38,626
Reserves	43	387,918	858,032
Equity attributable to owners of the Company		426,544	896,658
Non-controlling interests		42,388	31,936
TOTAL EQUITY		468,932	928,594

Approved by the Board of Directors on 29th March, 2021 and are signed on its behalf by:

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2020

	Attributable to owners of the Company										
	Share capital	Share premium	Special reserve	Other reserve	Exchange reserve	Financial assets at	Property	Retained profits	Sub-total	Non-controlling interests	Total equity
						FVTOCI reserve	revaluation reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>note 43(b)(i)</i>	<i>note 43(b)(ii)</i>	<i>note 43(b)(iii)</i>	<i>note 43(b)(iv)</i>					
At 1st January, 2019	38,626	118,706	(3,269)	5,318	49,054	—	39,177	797,803	1,045,415	27,867	1,073,282
Total comprehensive (expense)/income for the year	—	—	—	—	(12,465)	—	—	(136,292)	(148,757)	4,702	(144,055)
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(807)	(807)
Contribution from non-controlling shareholders in respect of incorporation of a subsidiary	—	—	—	—	—	—	—	—	—	174	174
Changes in equity for the year	—	—	—	—	(12,465)	—	—	(136,292)	(148,757)	4,069	(144,688)
At 31st December, 2019 and 1st January, 2020	38,626	118,706	(3,269)	5,318	36,589	—	39,177	661,511	896,658	31,936	928,594
Total comprehensive income/(expense) for the year	—	—	—	—	44,612	(2,896)	—	(511,830)	(470,114)	(652)	(470,766)
Dividends paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	(264)	(264)
Contributions from non-controlling shareholders in respect of incorporation of subsidiaries	—	—	—	—	—	—	—	—	—	11,368	11,368
Changes in equity for the year	—	—	—	—	44,612	(2,896)	—	(511,830)	(470,114)	10,452	(459,662)
At 31st December, 2020	38,626	118,706	(3,269)	5,318	81,201	(2,896)	39,177	149,681	426,544	42,388	468,932

Consolidated Statement of Cash Flows

For the year ended 31st December, 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(512,299)	(129,283)
Adjustments for:		
Finance costs	962	886
Depreciation of property, plant and equipment	92,759	98,383
Amortisation of intangible assets	2,196	2,110
Allowance for/(write back of) inventories	8,831	(10,165)
Impairment losses recognised on debtors	725	9,640
Impairment loss recognised on property, plant and equipment	341,064	—
Impairment loss recognised on intangible assets	1,595	—
Dividend income from equity investment at FVTPL	(298)	—
Interest income on bank deposits	(232)	(840)
Net loss on disposal of property, plant and equipment	670	2,231
Decrease in fair values of investment properties	31,430	5,690
Imputed interest income on other receivables	—	(71)
Share of profit of an associate	(4,937)	(5,700)
Net fair values of derivative financial instruments at initial recognition date	—	1,186
Net (increase)/decrease in fair values of derivative financial instruments	(4,270)	5,772
Decrease in fair value of equity investment at FVTPL	3,751	—
Operating loss before working capital changes	(38,053)	(20,161)
Decrease in inventories	12,594	54,462
Decrease in debtors, deposits and prepayments	59,562	68,800
Increase/(decrease) in creditors and accrued charges	26,821	(43,476)
Decrease in contract liabilities	(6,343)	(1,110)
Increase/(decrease) in refund liabilities	1,168	(1,578)
Cash generated from operations	55,749	56,937
Income taxes paid	(6,323)	(4,921)
Net cash generated from operating activities	49,426	52,016

Consolidated Statement of Cash Flows

For the year ended 31st December, 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(51,421)	(15,896)
Proceeds from disposal of property, plant and equipment	72	857
Interest received	232	840
Purchases of equity investment at FVTOCI	(2,711)	—
Purchases of equity investment at FVTPL	(12,626)	—
Dividend received from equity investment at FVTPL	298	—
Dividend received from an associate	—	3,449
Investment in an associate	—	(5,553)
Deposits paid for acquisition of property, plant and equipment	(27,780)	(4,200)
Net cash used in investing activities	(93,936)	(20,503)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from disposal of partial interests in subsidiaries without losing control	—	947
Contribution from non-controlling shareholders in respect of incorporation of subsidiaries	11,368	174
Cash dividends paid to non-controlling shareholders of subsidiaries	(264)	(807)
Interest paid on bank borrowings	(620)	(841)
Interest paid on lease liabilities	(342)	(45)
Repayments of bank borrowings	(5,524)	(5,337)
Repayments of lease liabilities	(950)	(958)
Net cash generated from/(used in) financing activities	3,668	(6,867)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(40,842)	24,646
Effect of foreign exchange rate changes	11,765	(5,283)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	241,640	222,277
CASH AND CASH EQUIVALENTS AT END OF YEAR	212,563	241,640

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

1. GENERAL INFORMATION

Arts Optical International Holdings Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of 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 Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is different from the functional currency of the Company, which is United States dollars (“US\$”), as directors of the Company (“the “Directors”) consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of listing.

2. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period 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

Except as described below, 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 these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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 had no impact on the consolidated financial statements.

Amendments to HKFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when 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 Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1st January, 2020. The application of the amendments had no impact on the consolidated financial statements as similar conclusion would have been reached without applying the optional concentration test.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*

The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform.

The amendments had no impact on the consolidated financial statements of the Group as the Group’s designated hedged items/assessment of hedge effectiveness is not affected by the interest rate benchmark reform.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1st January, 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16 <i>COVID-19 Related Rent Concessions</i>	1st June, 2020
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 <i>Interest Rate Benchmark Reform — Phase 2</i>	1st January, 2021
Amendments to HKFRS 3 <i>Reference to the Conceptual Framework</i>	1st January, 2022
Amendments to HKAS 16 <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1st January, 2022
Amendments to HKAS 37 <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1st January, 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1st January, 2022
Amendments to HKAS 1 <i>Classification of Liabilities as Current or Non-current</i>	1st January, 2023

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties and certain financial instruments that are measured at fair value).

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation

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

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

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

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

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

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

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and NCI are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The NCI in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Associates (continued)

Investments in associates are accounted for in the consolidated financial statements by the equity method and are initially recognised at cost. Identifiable assets and liabilities of the associates in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investments over the Group's share of the net fair value of the associates' identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investments. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of associates' post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Joint arrangements (continued)

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of its joint arrangement and determined it to be joint venture.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of the joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated exchange reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

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

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

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

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

(iii) Translation on consolidation

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Land and buildings	Over the remaining term of the lease and over the estimated useful lives of 25 to 30 years or the lease term of the land on which buildings are located, if shorter
Leasehold improvements	Over the estimated useful lives of 3 to 5 years or the term of the lease, if shorter
Plant and machinery and motor vehicles	Over 5 years
Furniture, fixtures and office equipment	Over 3 to 5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rentals and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time.

Gains or losses arising from changes in the fair value of investment properties are recognised in profit or loss for the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment properties (continued)

An investment property is derecognised upon disposal or when the investment property is withdrawn from use. Any gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4(u).

(h) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Group as lessee

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

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses except for the right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 4(g).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

(i) The Group as lessee (continued)

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

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

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(ii) The Group as lessor

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

(i) Intangible assets other than goodwill

Intangible assets which represent trademark and customer relationships are stated at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss as follows:

Trademark	Indefinite
Customer relationships	Straight-line basis over 10 years

The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

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

(k) Contract assets and contract liabilities

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

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

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

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

(l) Recognition and derecognition of financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Recognition and derecognition of financial instruments (continued)

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

(m) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments

Debt instruments held by the Group are classified into the following measurement category:

- amortised cost, if the instruments is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the financial assets at FVTOCI reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the financial assets at FVTOCI reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

(n) Trade and other receivables

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalents

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

(p) Financial liabilities and equity instruments

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

(q) Borrowings

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

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

(r) Trade and other payables

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

(s) Equity instruments

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

(t) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

(u) Revenue and other income

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue and other income (continued)

Revenue from the sale of optical products is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Under the Group's standard contract terms, customers have a right of return within 14 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(v) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Employee benefits (continued)

(iii) Termination benefits

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

(w) Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. 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.

(x) Government grants

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

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

(y) Taxation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Taxation (continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements, 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.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(z) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

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

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

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(aa) Impairment of financial assets and contract assets

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

The Group always recognises lifetime ECL for trade debtors, contract assets and lease receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

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For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of financial assets and contract assets (continued)

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of financial assets and contract assets (continued)

Significant increase in credit risk (continued)

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

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

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

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

Definition of default

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

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of financial assets and contract assets (continued)

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

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

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For the year ended 31st December, 2020

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of financial assets and contract assets (continued)

Measurement and recognition of ECL (continued)

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

(bb) Provisions and contingent liabilities

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

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

(cc) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

(a) Critical judgements in applying accounting policies

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

(i) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the Directors have adopted the presumption that investment properties measured using the fair value model are recovered through sale.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(a) Critical judgements in applying accounting policies (continued)

(ii) Revenue recognition from sales of products with no alternative use at point in time

Under HKFRS 15 *Revenue from Contracts with Customers* (“HKFRS 15”), control of the asset is transferred 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. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

(b) Key sources of estimation uncertainty

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

(i) Income taxes

As at 31st December, 2020, no deferred tax asset has been recognised on the tax losses of HK\$587,564,000 (2019: HK\$554,147,000) 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. In cases where the actual future 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.

(ii) Impairment of property, plant and equipment

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(ii) Impairment of property, plant and equipment (continued)

Further, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and the volatility in financial markets, including potential disruptions in the Group's operation.

The carrying amount of property, plant and equipment as at 31st December, 2020 was HK\$101,566,000 (2019: HK\$458,142,000).

(iii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than the 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 or further impairment loss may arise.

Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and the volatility in financial markets, including potential disruptions of the Group's operations.

The carrying amount of goodwill at the end of the reporting period was HK\$8,260,000 (2019: HK\$7,987,000). Details of the goodwill are provided in note 24 to the consolidated financial statements.

(iv) Impairment of intangible assets

Determining whether intangible assets (i.e. trademark and customer relationships) are impaired requires an estimation of the recoverable amount of these intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Further, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and the volatility in financial markets, including potential disruptions in the Group's operation.

At 31st December, 2020, the carrying amount of the Group's intangible assets was HK\$5,490,000 (2019: HK\$8,149,000) after an impairment loss of HK\$1,595,000 (2019: nil) was recognised during the year. Details of the intangible assets are provided in note 23 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(v) Fair value of investment properties

The Group appointed an independent firm of qualified professional valuers to assess the fair value of the investment properties. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

Whilst the Group considers valuations of the Group's investment properties are the best estimates, the ongoing COVID-19 pandemic has resulted in greater market volatility depending on how the COVID-19 pandemic may progress and evolve, which have led to high degree of uncertainties in respect of the valuations in the current year.

The carrying amount of investment properties as at 31st December, 2020 was HK\$140,490,000 (2019: HK\$171,920,000).

(vi) Impairment of trade debtors

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

As at 31st December, 2020, the carrying amount of trade debtors was HK\$202,887,000 (net of allowance for credit losses of HK\$7,251,000) (2019: HK\$243,787,000 (net of allowance for credit losses of HK\$61,749,000)).

(vii) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write back in the period in which such estimate has been changed. As at 31st December, 2020, the carrying amount of inventories was HK\$129,120,000, net of allowance for inventories of HK\$73,937,000 (2019: HK\$141,363,000, net of allowance for inventories of HK\$65,058,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(viii) Fair value of derivative financial instruments

The Group appointed an independent firm of qualified professional valuers to assess the fair value of the derivative financial instruments of put and call option in respect of 12.5% of the issued share capital of the Group's associate. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amounts of derivative financial instruments for put and call options as at 31st December, 2020 were HK\$1,573,000 (2019: HK\$288,000) and HK\$4,261,000 (2019: HK\$7,246,000) respectively.

(ix) Fair value measurement of equity investment

In the absence of quoted market prices in an active market, the Directors estimate the fair value of the Group's investment in 形象力時尚科技（深圳）有限公司 (known as "Image Power Fashion Technology (Shenzhen) Company Limited") ("Image Power"), details of which are set out in note 28 to the consolidated financial statements, by considering information from a variety of sources, including the latest financial information, the historical data on market volatility as well as the price and industry and sector performance of Image Power.

Whilst the Group considers these valuations are the best estimates, the ongoing COVID-19 pandemic has resulted in greater market volatility and may cause further disruptions to the investees' business, which have led to higher degree of uncertainties in respect of the valuations in the current year.

The carrying amount of the investment as at 31st December, 2020 was HK\$48,000.

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK\$, Renminbi ("RMB"), Euro ("EUR"), US\$, Japanese Yen ("JPY") and British Pound Sterling ("GBP"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Foreign currency risk (continued)

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
HK\$	52,557	39,240	25,759	24,430
RMB	856	1,008	746	5,462
EUR	10,436	9,028	10,105	12,317
US\$	40,491	56,983	639	653
JPY	2,712	1,673	425	776
GBP	2,845	6,153	—	—

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuation in currency of RMB, EUR, JPY and GBP. HK\$ and US\$ denominated monetary items arose from group entities with functional currency of US\$ and HK\$ respectively. As HK\$ is pegged to US\$, the Directors consider that the foreign currency exposure is limited.

At 31st December, 2020, if HK\$ had strengthened or weakened 5% against RMB with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK\$6,000 higher or lower (2019: HK\$223,000 lower or higher), arising mainly as a result of the foreign exchange loss or gain on bank balances (2019: gain or loss on trade creditors) denominated in RMB.

At 31st December, 2020, if HK\$ had strengthened or weakened 5% against EUR with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK\$16,000 higher or lower (2019: HK\$164,000 lower or higher), arising mainly as a result of the foreign exchange loss or gain on trade debtors (2019: gain or loss on derivative financial instrument) denominated in EUR.

At 31st December, 2020, if HK\$ had strengthened or weakened 5% against JPY with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK\$114,000 (2019: HK\$45,000) higher or lower, arising mainly as a result of the foreign exchange loss or gain on bank balances (2019: loss or gain on trade debtors) denominated in JPY.

At 31st December, 2020, if HK\$ had strengthened or weakened 5% against GBP with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK\$142,000 (2019: HK\$308,000) higher or lower, arising mainly as a result of the foreign exchange loss or gain on bank balances denominated in GBP.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Price risk

The Group is exposed to equity price risk mainly through its investment in equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities quoted on the Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 10% higher/lower:

- loss after tax for the year ended 31st December, 2020 would decrease/increase by HK\$888,000. This is mainly due to the changes in fair value of equity investment at FVTPL.

(c) Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group carries out research on the creditability of new customer and assesses the potential customers credit quality and decide credit limits by customers. Limits attributed to customers are reviewed at least once a year. Trade debtors that are neither past due nor impaired have good track records with the Group. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment ECL model on trade balances individually based on provision matrix. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

At 31st December, 2020, the Group's concentration of credit risk by geographical locations is mainly in Italy, which accounted for 46% (2019: 59%) of the total trade debtors.

At 31st December, 2020, the Group has concentration of credit risk as 21% (2019: 24%) and 46% (2019: 47%) of the total trade debtors was due from the Group's largest customer and the five largest customers.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

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

Internal credit rating	Description	Trade debtors	Other financial assets
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 usually settle after due date	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have 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

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

	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				2020 HK\$'000	2019 HK\$'000
Loan receivable	27	Loss	Credit-impaired	—	13,689
Other debtors and bills receivables	31	Note 1	12m ECL	16,061	19,704
Trade debtors	31	Note 2	Lifetime ECL (significant outstanding balance)	126,225	148,859
		Note 2	Lifetime ECL (provision matrix)	79,541	98,164
		Loss	Credit-impaired	4,372	58,513
				210,138	305,536

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Notes:

- (1) For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due <i>HK\$'000</i>	Not past due/ no fixed repayment terms <i>HK\$'000</i>	Total <i>HK\$'000</i>
2020			
Other debtors and bills receivables	—	16,061	16,061
2019			
Other debtors and bills receivables	—	19,704	19,704

- (2) For trade debtors, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

Provision matrix — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade debtors which were assessed based on provision matrix as at 31st December, 2020 within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK\$126,225,000 (2019: HK\$148,859,000) and HK\$4,372,000 (2019: HK\$58,513,000) respectively as at 31st December, 2020 were assessed individually.

Gross carrying amount

Internal credit rating	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Low risk	30,602	32,439
Watch list	32,184	46,477
Doubtful	16,755	19,248
	79,541	98,164

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Provision matrix — internal credit rating (continued)

Gross carrying amount (continued)

During the year ended 31st December, 2020, reversal of impairment allowance of nil (2019: HK\$837,000) and HK\$249,000 (2019: HK\$308,000) for trade debtors, based on the provision matrix and significant outstanding balances were made respectively. Impairment allowance of HK\$974,000 (2019: HK\$10,785,000) were made on debtors with credit-impaired debtors.

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

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
At 1st January, 2019	12,472	42,922	55,394
Changes due to financial instruments recognised			
— Transfer to credit-impaired	(7,936)	7,936	—
— (Reversal of impairment losses)/ impairment losses recognised	(1,145)	10,785	9,640
— Write-offs	(155)	(3,130)	(3,285)
At 31st December, 2019 and 1st January, 2020	3,236	58,513	61,749
Changes due to financial instruments recognised			
— Transfer to credit-impaired	(87)	87	—
— (Reversal of impairment losses)/ impairment losses recognised	(249)	974	725
— Write-offs	(25)	(55,202)	(55,227)
Exchange realignment	4	—	4
At 31st December, 2020	2,879	4,372	7,251

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Changes in the loss allowance for trade debtors are mainly due to:

	Increase/(decrease) in lifetime ECL	
	Not credit-impaired HK\$'000	Credit-impaired HK\$'000
2020		
Five trade debtors with a gross amount of HK\$1,232,000 defaulted and transferred to credit-impaired as at 31st December, 2020	(87)	87
2019		
Three trade debtors with a gross amount of HK\$18,720,000 defaulted and transferred to credit-impaired as at 31st December, 2019	(7,936)	7,936

The Group writes off a trade debtor when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade debtor are over three years past due, whichever occurs earlier. None of the trade debtors that have been written off is subject to enforcement activities.

(d) Liquidity risk

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

As at 31st December, 2020, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK\$3,000,000 (2019: HK\$3,000,000) and HK\$68,780,000 (2019: HK\$68,780,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2021.

All of the banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 31st December, 2020, none (2019: none) of the covenants relating to drawn down facilities had been breached.

The maturity analysis based on the contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	2 years to 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31st December, 2020							
Creditors and accrued charges	—	170,200	1,572	—	—	171,772	171,772
Lease liabilities	1.36	334	1,000	3,027	71	4,432	3,661
Bank borrowings — variable rate	2.49	19,780	—	—	—	19,780	19,780
At 31st December, 2019							
Creditors and accrued charges	—	142,037	1,574	—	—	143,611	143,611
Lease liabilities	2.46	286	432	1,408	—	2,126	2,065
Bank borrowings — variable rate	3.11	25,304	—	—	—	25,304	25,304

Bank borrowings with a repayment on demand clause are included in the “on demand or less than 3 months” time band in the above maturity analysis. As at 31st December, 2020 and 2019, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$19,780,000 and HK\$25,304,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

The Directors believe that these outstanding bank borrowings at 31st December, 2020 will be fully repaid by June 2024 in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	0–3 months HK\$'000	4–12 months HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total undiscounted cash flows HK\$'000
2020	1,529	4,589	6,118	8,404	20,640
2019	1,549	4,647	6,195	14,715	27,106

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

6. FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances and borrowings. It is the Group's policy to keep its borrowing at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's borrowings.

At 31st December, 2020, if interest rates had been 50 basis points (2019: 50 basis points) lower/higher with all other variables held constant, consolidated loss before tax for the year would have been HK\$99,000 (2019: HK\$127,000) lower/higher, arising mainly as a result of lower/higher interest expense on bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial assets and financial liabilities as the year end exposure does not reflect the exposure during the year.

(f) Categories of financial instruments at 31st December

	2020 HK\$'000	2019 HK\$'000
Financial assets:		
Financial asset measured at FVTPL	8,875	—
Financial asset measured at FVTOCI		
Equity investment	48	—
Derivative financial instrument	1,573	288
Financial assets measured at amortised cost	431,511	505,130
Financial liabilities:		
Derivative financial instrument	4,261	7,246
Financial liabilities measured at amortised cost	195,213	168,915

(g) Fair values

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31st December:

Description	Fair value measurements using:	Fair value measurements using:	2020 Total HK\$'000
	Level 1 2020 HK\$'000	Level 3 2020 HK\$'000	
Recurring fair value measurements:			
Financial assets			
Financial asset at FVTPL			
Listed equity security	8,875	—	8,875
Financial asset at FVTOCI			
Unlisted equity security	—	48	48
Derivative — Put option	—	1,573	1,573
	8,875	1,621	10,496
Investment properties			
Commercial units — Hong Kong	—	140,490	140,490
Total	8,875	142,111	150,986
Financial liabilities			
Derivative — Call option	—	(4,261)	(4,261)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

7. FAIR VALUE MEASUREMENTS (continued)

(a) Disclosures of level in fair value hierarchy at 31st December: (continued)

Description	Fair value measurements using: Level 3 2019 HK\$'000
Recurring fair value measurements:	
Financial assets	
Derivative — Put option	288
Investment properties	
Commercial units — Hong Kong	171,920
Total	172,208
Financial liabilities	
Derivative — Call option	(7,246)

(b) Reconciliation of financial instruments measured at fair value based on level 3:

Assets

Description	Financial assets at FVTOCI — Unlisted			
	equity security HK\$'000	Derivative put option HK\$'000	Investment properties HK\$'000	2020 Total HK\$'000
At 1st January, 2020	—	288	171,920	172,208
Total gains or losses recognised in profit or loss (#)	—	1,285	(31,430)	(30,145)
in other comprehensive income	(2,896)	—	—	(2,896)
Initial recognition	2,711	—	—	2,711
Exchange realignment	233	—	—	233
At 31st December, 2020	48	1,573	140,490	142,111
(#) Include gains or losses for assets held at end of reporting period	—	1,285	(31,430)	(30,145)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3: (continued)

Assets (continued)

Description	Derivative put option HK\$'000	Investment properties HK\$'000	2019 Total HK\$'000
At 1st January, 2019	—	177,610	177,610
Total gains or losses recognised in profit or loss (#)	(1,526)	(5,690)	(7,216)
Initial recognition (#)	1,814	—	1,814
At 31st December, 2019	288	171,920	172,208
(#) Include gains or losses for assets held at end of reporting period	288	(5,690)	(5,402)

Liabilities

Description	2020 Derivative call option HK\$'000
At 1st January, 2020	(7,246)
Total gains or losses recognised in profit or loss (#)	2,985
At 31st December, 2020	(4,261)
(#) Include gains or losses for liabilities held at end of reporting period	2,985

Description	2019 Derivative call option HK\$'000
At 1st January, 2019	—
Initial recognition (#)	(3,000)
Total gains or losses recognised in profit or loss (#)	(4,246)
At 31st December, 2019	(7,246)
(#) Include gains or losses for liabilities held at end of reporting period	(7,246)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3: (continued)

The total gains or losses recognised in other comprehensive income and presented in fair value change of equity investment at FVTOCI in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those of assets/(liabilities) held at end of reporting period are presented in other gains and losses in the consolidated statement of profit or loss and other comprehensive income for both years.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31st December, 2020:

The Group's chief financial officer (the "CFO") is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The CFO reports directly to the board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the CFO and the board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

- reversion yield (estimated based on the capitalisation of rental income potential, nature of the property and prevailing market condition);
- monthly market rent (estimated based on time, location and individual factors such as frontage and size, between the comparable and the property);
- volatility of share price (estimated based on the historical share price movement of companies in similar business operation);
- dividend yield (estimated based on historical dividend payment);
- adjusted price-to-sales ratio (estimated based on the historical share price-to-sales of listed entities in similar industries); and
- discount for lack of marketability (estimated based on the volatility of share price of listed entities in similar industries).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

7. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31st December, 2020: (continued)

Level 3 fair value measurements				Fair value — Assets/(Liabilities)		
Description	Valuation techniques	Unobservable inputs	Range	Effect on fair value for increase of inputs	2020 HK\$'000	2019 HK\$'000
Investment properties	Income capitalisation approach	Reversion yield	2.6% to 3.0% (2019: 2.6% to 3.0%)	Decrease	140,490	171,920
		Monthly market rent	Office portion: HK\$28.83 to HK\$29.75 (2019: HK\$26.0 to HK\$29.75) per square foot per month on lettable area basis	Increase		
		Car parking space portion:	HK\$3,200 to HK\$3,400 (2019: HK\$3,400) per car parking space per month			
Put option	Binomial option pricing model	Volatility of share price	35.6% (2019: 20.2%)	Increase	1,573	288
		Dividend yield	4.0% (2019: 4%)	Increase		
Call option	Binomial option pricing model	Volatility of share price	40.0% (2019: 19.8%)	Increase	(4,261)	(7,246)
		Dividend yield	4.0% (2019: 4%)	Decrease		
Financial assets at FVTOCI	Market approach	Adjusted price-to-sales ratio	0.92	Increase	48	—
		Discount for lack of marketability	35.95%	Decrease		

During the two years, there were no changes in the valuation techniques used.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

8. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines for the year is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Original design manufacturing division	556,776	775,342
— Distribution division	185,842	265,620
	742,618	1,040,962

The Group derives all revenue from the transfer of goods and services at a point in time.

Under the Group's standard contract terms, customers have a right to return within 14 days. The Group uses its accumulated historical experience to estimate the sales return on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A refund liability is recognised when the Group expects to refund some or all of the consideration received from customers.

9. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Compensation from customers	4,150	4,922
Dividend income from equity investment at FVTPL	298	—
Government subsidy (<i>Note</i>)	7,939	190
Gross rental income from investment properties	3,145	4,382
Imputed interest income on other receivables	—	71
Interest income on bank deposits	232	840
Product development income	5,447	—
Sales of scrap materials	3,347	3,102
Others	3,920	3,402
	28,478	16,909

Note: For the year ended 31st December, 2020, the government subsidy represented subsidies to the Group by the government of different countries as social insurance, wage and operation support which affected by the COVID-19 outbreak, also support the Group to adopt cleaner production technologies of factory and the contribution to the local epidemic prevention.

For the year ended 31st December, 2019, the government subsidy represented the ex-gratia payment under the "Ex-gratia Payment Scheme for Phasing Out Pre-Euro IV Diesel Commercial Vehicles" upon retirement of motor vehicles.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

10. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net foreign exchange (losses)/gains	(30,787)	9,435
Net loss on disposal of property, plant and equipment	(670)	(2,231)
Decrease in fair values of investment properties	(31,430)	(5,690)
Decrease in fair value of equity investment at FVTPL	(3,751)	—
Net fair values of derivative financial instruments at initial recognition date	—	(1,186)
Net increase/(decrease) in fair values of derivative financial instruments	4,270	(5,772)
	(62,368)	(5,444)

11. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

The accounting policies of the reportable and operating segments are the same as the Group’s accounting policies described in note 4 to the consolidated financial statements. Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors’ emoluments, dividend income, interest income, property rental income, net foreign exchange gains or losses, decrease in fair values of investment properties, decrease in fair value of equity investment at FVTPL, net increase or decrease in fair values of derivative financial instruments, impairment losses of intangible assets and property, plant and equipment, finance costs and share of profit of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenues and segment results are presented.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

11. SEGMENT INFORMATION (continued)

Information about operating segment profit or loss:

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Total HK\$'000
For the year ended					
31st December, 2020					
Original design manufacturing division	315,644	168,813	63,336	8,983	556,776
Distribution division	113,180	29,667	20,230	22,765	185,842
Revenue from external customers	428,824	198,480	83,566	31,748	742,618
Segment (loss)/profit	(10,125)	(14,154)	(3,925)	746	(27,458)
Unallocated income and gains					7,875
Unallocated corporate expenses and losses					(496,923)
Interest income on bank deposits					232
Finance costs					(962)
Share of profit of an associate					4,937
Loss before tax					<u>(512,299)</u>
For the year ended					
31st December, 2019					
Original design manufacturing division	482,158	201,927	76,712	14,545	775,342
Distribution division	152,105	22,813	51,615	39,087	265,620
Revenue from external customers	634,263	224,740	128,327	53,632	1,040,962
Segment (loss)/profit	(18,679)	(17,807)	(5,058)	2,261	(39,283)
Unallocated income and gains					14,150
Unallocated corporate expenses and losses					(109,804)
Interest income on bank deposits					840
Finance costs					(886)
Share of profit of an associate					5,700
Loss before tax					<u>(129,283)</u>

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

11. SEGMENT INFORMATION (continued)

Other Segment information

Amounts included in the measure to segment (loss)/profit:

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Unallocated <i>HK\$'000</i> <i>(Note)</i>	Total <i>HK\$'000</i>
Year ended 31st December, 2020						
Depreciation of property, plant and equipment	8,617	4,608	1,011	245	78,278	92,759
Impairment losses recognised on debtors	11	218	141	355	—	725
Allowance for inventories	4,088	3,963	398	382	—	8,831
Year ended 31st December, 2019						
Depreciation of property, plant and equipment	8,598	3,601	1,249	259	84,676	98,383
Impairment losses recognised on debtors	677	8,686	138	139	—	9,640
Write back of inventories	(5,082)	(2,815)	(1,834)	(434)	—	(10,165)

Amounts regularly provided to the CODM but not included in the measure of segment profit and not allocated to any operating and reportable segment included net gain or loss on disposal of property, plant and equipment and depreciation of right-of-use assets which are set out in notes 10 and 15 respectively.

Note: The unallocated items are to adjust expenditure for the Group head office's corporate assets, which are not included in segment information.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

11. SEGMENT INFORMATION (continued)

Geographical information

Information about the Group's revenue is presented based on the location of the external customers. Information about the Group's non-current assets other than loan receivable, derivative financial instrument and deferred tax assets is presented based on the geographical location of the Group.

	Revenue from external customers		Non-current assets	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Hong Kong	—	—	183,332	207,807
The People's Republic of China (excluding Hong Kong) (the "PRC")	—	—	65,835	422,485
United States	198,480	224,740	565	2,160
Italy	270,967	414,380	45,725	38,160
Other countries	273,171	401,842	43,127	18,677
	742,618	1,040,962	338,584	689,289

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A ¹	125,964	201,537
Customer B ²	98,745	114,052

¹ Revenue from Europe

² Revenue from the United States

12. IMPAIRMENT LOSSES

	2020 HK\$'000	2019 HK\$'000
Impairment losses recognised on debtors	725	9,640
Impairment loss recognised on intangible assets	1,595	—
Impairment loss recognised on property, plant and equipment	341,064	—
	343,384	9,640

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

13. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank borrowings	620	841
Interest on lease liabilities	342	45
	962	886

14. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current year:		
Hong Kong Profits Tax	162	2,677
PRC Enterprise Income Tax	—	274
United Kingdom Corporation Tax	1,429	2,089
France Corporation Tax	16	609
South Africa Corporation Tax	109	250
Dividend withholding tax	—	2,090
Deferred taxation (<i>note 40</i>)	(1,505)	(5,565)
	211	2,424
Underprovision/(over) in respect of prior year:		
Hong Kong Profits Tax	324	—
PRC Enterprise Income Tax	(10)	(14)
United Kingdom Corporation Tax	(4)	—
South Africa Corporation Tax	35	60
	345	46
	556	2,470

Under the two-tiered Profits Tax rate regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5% for both years.

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

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

14. INCOME TAX EXPENSE (continued)

United Kingdom Corporation Tax is calculated at the applicable rate of 19% in accordance with the relevant law and regulations in the United Kingdom for both years.

France Corporation Tax is calculated at the applicable rate of 28% for amounts of taxable profit up to EUR500,000 and a corporate tax rate of 31% (2019: 33.33%) for taxable profit above EUR500,000 in accordance with the relevant law and regulations in France for both years.

South Africa Corporation Tax is calculated at the applicable rate of 28% in accordance with the relevant law and regulations in South Africa for both years.

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

	2020 HK\$'000	2019 HK\$'000
Loss before tax	(512,299)	(129,283)
Tax at Hong Kong Profits Tax rate of 16.5%	(84,529)	(21,332)
Tax effect of share of profit of an associate	(815)	(941)
Tax effect of expenses that are not deductible	10,634	2,468
Tax effect of income that is not taxable	(1,216)	(1,438)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis (Note)	—	5,814
Underprovision in respect of prior year	345	46
Tax effect of tax losses not recognised	7,433	8,775
Tax effect of other deductible temporary differences not recognised	65,976	10,262
Utilisation of tax losses not previously recognised	(1,919)	(5,520)
Utilisation of deductible temporary differences not previously recognised	(1)	(1,166)
Dividend withholding tax	1,745	1,975
Effect of different tax rate of subsidiaries operating in other jurisdictions	209	713
Effect of two-tiered tax rate of Hong Kong	(162)	(165)
Others	2,856	2,979
Income tax expense	556	2,470

Note: In relation to 50:50 apportionment basis, a portion of the Group's profits is deemed under Hong Kong Profits Tax neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for year ended 31st December, 2019.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

15. LOSS FOR THE YEAR

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Amortisation of intangible assets (included in distribution and selling expenses)	2,196	2,110
Impairment losses recognised on debtors	725	9,640
Impairment loss recognised on intangible assets	1,595	—
Impairment loss recognised on property, plant and equipment	341,064	—
Auditors' remuneration:		
— Audit service	1,365	1,300
— Non-audit services	225	512
Cost of inventories recognised as an expense	580,411	861,625
Depreciation of property, plant and equipment	92,759	98,383
Decrease in fair values of investment properties	31,430	5,690
Net fair values of derivative financial instruments at initial recognition date	—	1,186
Net (increase)/decrease in fair values of derivative financial instruments	(4,270)	5,772
Decrease in fair value of equity investment at FVTPL	3,751	—
Allowance for/(write back of) inventories (included in cost of sales)	8,831	(10,165)
Operating leases rentals in respect of rented premises	486	1,797
Direct operating expenses of investment properties that did not generate rental income	912	1,158
Direct operating expenses of investment properties that generate rental income	737	752

Cost of inventories sold includes staff costs and depreciation of approximately HK\$190,254,000 (2019: HK\$327,028,000) which are included in the amounts disclosed separately above.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

16. EMPLOYEE BENEFITS EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Salaries, bonuses and allowances	317,017	433,978
Retirement benefit scheme contributions	11,418	36,688
	328,435	470,666

The five highest paid individuals in the Group during the year included one (2019: one) executive director whose emoluments are set out in note 17. The emoluments of the remaining four (2019: four) highest paid individuals are set out below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Salaries and other benefits	5,191	5,412
Performance related incentive bonuses	374	581
Contributions to retirement benefit schemes	421	413
	5,986	6,406

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
HK\$1,000,001 to HK\$1,500,000	3	2
HK\$1,500,001 to HK\$2,000,000	1	2
	4	4

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2019: nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

17. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director in respect of a person's services as a director of the Company undertaking is set out below:

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:				
Mr. Ng Hoi Ying, Michael	—	1,464	67	1,531
Mr. Ng Kim Ying	—	427	20	447
	—	1,891	87	1,978
Independent non-executive directors:				
Mr. Wong Chi Wai	144	—	—	144
Mr. Chung Hil Lan Eric	144	—	—	144
Mr. Lam Yu Lung	144	—	—	144
	432	—	—	432
Total for 2020	432	1,891	87	2,410

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:				
Mr. Ng Hoi Ying, Michael	—	1,560	72	1,632
Mr. Ng Kim Ying	—	450	21	471
	—	2,010	93	2,103
Independent non-executive directors:				
Mr. Wong Chi Wai	144	—	—	144
Mr. Chung Hil Lan Eric	144	—	—	144
Mr. Lam Yu Lung	144	—	—	144
	432	—	—	432
Total for 2019	432	2,010	93	2,535

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

17. DIRECTORS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Note: The executive directors' emoluments shown above were for their services in connection with their services as directors of the Company. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

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

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 and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

18. DIVIDENDS

No dividend in respect of the year ended 31st December, 2020 has been proposed by the Directors (2019: nil).

19. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the purpose of basic loss per share — Loss for the year attributable to owners of the Company	(511,830)	(136,292)

	2020 <i>Number of shares</i>	2019 <i>Number of shares</i>
Weighted average number of shares for the purpose of basic loss per share	386,263,374	386,263,374

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

20. INVESTMENT PROPERTIES

The Group leases out lettable units of the properties under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 3 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2020 HK\$'000	2019 HK\$'000
At 1st January	171,920	177,610
Decrease in fair value recognised in profit or loss	(31,430)	(5,690)
At 31st December	140,490	171,920

In determining the fair value of investment properties, it is the Group's policy to engage an independent firm of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and key inputs to the model.

At 31st December, 2020 and 31st December, 2019, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

The valuations have been arrived at using income capitalisation approach. The valuations have been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the reversion yield and monthly market rent and contracted monthly rent of similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. There has been no change from the valuation technique used in prior year.

At 31st December, 2020, all investment properties pledged as security for the Group's bank borrowings amounted to HK\$14,791,000 (2019: HK\$18,979,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

21. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in land and buildings held for own use <i>HK\$'000</i> <i>(Note a)</i>	Buildings	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Buildings under construction <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost								
At 1st January, 2019	80,429	670,293	691,285	726,637	45,738	11,309	1,779	2,227,470
Additions	—	441	—	12,221	655	3,163	—	16,480
Disposals	—	—	—	(2,541)	(342)	(1,188)	(1,758)	(5,829)
Exchange realignment	(1,639)	(17,332)	(23,239)	(36,912)	(1,480)	(381)	(21)	(81,004)
At 31st December, 2019 and 1st January, 2020	78,790	653,402	668,046	699,405	44,571	12,903	—	2,157,117
Additions	33,857	18,174	—	2,617	989	365	—	56,002
Modification	2,651	—	—	—	—	—	—	2,651
Disposals	(753)	—	(4,589)	(3,286)	(322)	(965)	—	(9,915)
Exchange realignment	5,990	25,281	30,549	47,444	2,170	627	—	112,061
At 31st December, 2020	120,535	696,857	694,006	746,180	47,408	12,930	—	2,317,916
Accumulated depreciation and impairment								
At 1st January, 2019	12,541	387,471	532,121	691,999	38,921	8,373	—	1,671,426
Charge for the year	3,242	13,435	64,120	13,707	2,607	1,272	—	98,383
Eliminated on disposals	—	—	—	(1,512)	(338)	(891)	—	(2,741)
Exchange realignment	(639)	(10,059)	(20,411)	(35,408)	(1,233)	(343)	—	(68,093)
At 31st December, 2019 and 1st January, 2020	15,144	390,847	575,830	668,786	39,957	8,411	—	1,698,975
Charge for the year	3,917	13,541	56,974	14,482	2,364	1,481	—	92,759
Eliminated on disposals	(753)	—	(4,472)	(2,839)	(272)	(837)	—	(9,173)
Impairment	29,273	266,051	37,813	6,389	1,074	464	—	341,064
Exchange realignment	2,577	13,475	27,861	46,243	1,998	571	—	92,725
At 31st December, 2020	50,158	683,914	694,006	733,061	45,121	10,090	—	2,216,350
Carrying amount								
At 31st December, 2020	70,377	12,943	—	13,119	2,287	2,840	—	101,566
At 31st December, 2019	63,646	262,555	92,216	30,619	4,614	4,492	—	458,142

During the year, the Group performed substantially below budget due to decrease in sales orders. The management of the Group considered there were impairment indicators and hence conducted an impairment assessment on the relevant property, plant and equipment, and right-of-use assets, which constitutes an individual CGU of manufacturing and distribution business in the Asia for the purpose of impairment assessment.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

21. PROPERTY, PLANT AND EQUIPMENT (continued)

The recoverable amounts of the respective CGU are determined from value in use calculations. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, in which 10% and 6% sales growth rate in first two years and subsequent three years, respectively. The cash flows beyond the 5-year period are extrapolated up to the end of the relevant useful lives of land and buildings with zero growth rate, and at a pre-tax rate used to discount the forecast cash flows from the Group is 11.28% which was provided by an independent professional appraiser. The growth rates are referred to past experience and current market expectation and/or demand or based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate whichever is applicable.

During year ended 31st December, 2020, the Group assessed the recoverable amount of the CGU in Asia of HK\$76,436,000 and as a result recognised impairment losses of HK\$341,064,000 in respect of property, plant and equipment, and right-of-use assets attributable to that CGU to reduce their carrying amount to recoverable amount. The impairment loss of property, plant and equipment including right-of-use assets recognised was due to the outbreak of COVID-19 and thus the revenue dropped sharply. No impairment loss has been recognised on the CGU during year ended 31st December, 2019.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of nil (2019: HK\$173,235,000).

Note:

(a) Right-of-use assets

	Land and buildings HK\$'000	Leasehold lands in the PRC and Vietnam HK\$'000	Leased properties HK\$'000	Total HK\$'000
At 1st January, 2019	34,542	30,188	3,158	67,888
Depreciation	(1,345)	(792)	(1,105)	(3,242)
Exchange realignment	—	(998)	(2)	(1,000)
At 31st December, 2019 and 1st January, 2020	33,197	28,398	2,051	63,646
Addition	—	33,857	—	33,857
Modification	—	—	2,651	2,651
Depreciation	(1,287)	(1,379)	(1,251)	(3,917)
Impairment	—	(29,273)	—	(29,273)
Exchange realignment	1	3,531	(119)	3,413
At 31st December, 2020	31,911	35,134	3,332	70,377

The land and buildings comprise a property situated in Hong Kong.

At 31st December, 2020, the carrying amount of land and buildings of HK\$28,151,000 (2019: HK\$29,296,000) pledged as securities for the Group's bank borrowings amounted to HK\$4,989,000 (2019: HK\$6,325,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

21. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: (continued)

(a) Right-of-use assets (continued)

Lease liabilities of HK\$3,661,000 (2019: HK\$2,065,000) are recognised with related right-of-use assets of HK\$3,332,000 as at 31st December, 2020 (2019: HK\$2,051,000). 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.

	2020 HK\$'000	2019 HK\$'000
Depreciation expenses on right-of-use assets	3,917	3,242
Interest expense on lease liabilities (included in finance cost)	342	45
Expenses relating to short-term lease (included in cost of sales and administrative expenses)	486	1,797

Details of total cash outflow for leases are set out in note 45(c).

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 2 months to 6 years (2019: 3 months to 5 years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

21. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: (continued)

(a) Right-of-use assets (continued)

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

	Lease liabilities recognised as at 31st December (discounted)		Potential future lease payments under extension options not included in lease liabilities (undiscounted)	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Offices — outside Hong Kong	3,661	2,065	2,841	5,658

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31st December, 2020, the option has been exercised due to the unexpected economic impact from the outbreak of COVID-19.

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold lands located in the PRC with carrying value of nil (2019: HK\$19,341,000).

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For the year ended 31st December, 2020

22. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2020 and 31st December, 2019 are as follows:

Name	Place of incorporation/ registration and operation	Paid up capital	Percentage of effective ownership interest				Principal activities
			2020		2019		
			Direct	Indirect	Direct	Indirect	
Allied Power Inc.	British Virgin Islands	Canadian Dollars 50,000	100%	—	100%	—	Investment holding
Argent Optical Manufactory Limited	Hong Kong/PRC	HK\$100,000	—	100%	—	100%	Investment holding
Argent Optical Technology (Shenzhen) Company Limited	PRC	HK\$202,000,000	—	100% (Note)	—	100% (Note)	Manufacture of prescription frames and sunglasses
Arts Group Joint Stock Company ("Arts JSC")	Vietnam	US\$3,800,000	—	64%	—	—	Property holding
Arts Optical Company Limited	Hong Kong	HK\$1,000,000	—	100%	—	100%	Trading in prescription frames and sunglasses
Arts Studio Limited	Hong Kong	HK\$100	—	100%	—	100%	Trading in prescription frames and sunglasses
E-Imperial Company Limited, LLC	United States	US\$158,273	—	100%	—	100%	Trading in prescription frames and sunglasses
Shanghai Stepper Eyewear Company Limited	PRC	RMB6,600,000	—	48%	—	48%	Trading in prescription frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	—	100%	—	100%	Property holding
Stepper Deutschland GmbH	Germany	EUR50,000	—	48%	—	48%	Trading in prescription frames and sunglasses
Stepper Eyewear Limited ("Stepper HK")	Hong Kong	HK\$100	—	80%	—	80%	Trading in prescription frames and sunglasses
Stepper France	France	EUR50,000	—	66.4%	—	66.4%	Trading in prescription frames and sunglasses
Stepper South Africa (Proprietary) Limited	South Africa	South African Rand 500,000	—	80%	—	80%	Trading in prescription frames and sunglasses
Stepper (UK) Limited ("Stepper UK")	United Kingdom	GBP5,000	—	72%	—	72%	Trading in prescription frames and sunglasses
宏駿眼鏡製造 (鷹潭) 有限公司 (known as "Hongjun Optical Manufactory (Yingtian) Company Limited")	PRC	US\$5,500,000	—	100% (Note)	—	100% (Note)	Property holding
宏懋金屬製品 (深圳) 有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")	PRC	HK\$61,000,000	—	100% (Note)	—	100% (Note)	Property holding
滙駿光學城 (河源) 有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK\$150,000,000	—	100% (Note)	—	100% (Note)	Manufacture of prescription frames and sunglasses

Note: These subsidiaries are registered as wholly foreign-owned companies in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

22. PRINCIPAL SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at 31st December, 2020 or at any time during the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. These other subsidiaries were mainly established in the PRC and their principal activities are mainly either investment holding or inactive.

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

Remarks:

- (1) For illustrative purposes, it is assumed that the Group has two subsidiaries with non-controlling interests that are material to the Group.
- (2) The amounts disclosed below do not reflect the elimination of intragroup transactions.

Name	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Stepper HK	Hong Kong	20%	20%	(696)	4,539	32,200	32,854
Arts JSC	Vietnam	36%	—	(131)	—	10,524	—
Individually immaterial subsidiaries with non-controlling interests				(198)	—	(336)	(918)
				(1,025)	4,539	42,388	31,936

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

22. PRINCIPAL SUBSIDIARIES (continued)

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

Stepper HK and its subsidiaries

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 31st December:		
Non-current assets	22,060	21,823
Current assets	153,580	149,957
Non-current liabilities	(2,669)	(1,431)
Current liabilities	(34,546)	(38,840)
Net assets	138,425	131,509
Equity attributable to owners of the Company	109,831	103,492
Non-controlling interests of Stepper HK	25,819	24,234
Non-controlling interests of Stepper HK's subsidiaries	2,775	3,783
For the year ended 31st December:		
Revenue	161,891	247,685
Expenses	156,141	225,619
Profit for the year	5,750	22,066
Profit attributable to owners of the Company	5,288	17,512
Profit attributable to the non-controlling interests of Stepper HK	1,322	4,378
(Loss)/profit attributable to the non-controlling interests of Stepper HK's subsidiaries	(860)	176
Profit for the year	5,750	22,066

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

22. PRINCIPAL SUBSIDIARIES (continued)

Stepper HK and its subsidiaries (continued)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
For the year ended 31st December:		
Other comprehensive income attributable to owners of the Company	1,051	734
Other comprehensive income attributable to the non-controlling interests of Stepper HK	263	184
Other comprehensive income attributable to the non-controlling interests of Stepper HK's subsidiaries	116	48
Other comprehensive income for the year	1,430	966
Total comprehensive income attributable to owners of the Company	6,339	18,246
Total comprehensive income attributable to the non-controlling interests of Stepper HK	1,585	4,562
Total comprehensive (expense)/income attributable to the non-controlling interests of Stepper HK's subsidiaries	(744)	224
Total comprehensive income for the year	7,180	23,032
Net cash generated from operating activities	22,945	28,886
Net cash used in investing activities	(668)	(413)
Net cash used in financing activities	(23,339)	(22,769)
Net (decrease)/increase in cash and cash equivalents	(1,062)	5,704

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

22. PRINCIPAL SUBSIDIARIES (continued)

Arts JSC

	2020 HK\$'000
At 31st December:	
Non-current assets	24,155
Current assets	5,824
Current liabilities	(746)
Net assets	29,233
Equity attributable to owners of the Company	18,709
Non-controlling interests of Arts JSC	10,524
For the year ended 31st December:	
Revenue	—
Expenses	363
Loss for the year	(363)
Loss attributable to owners of the Company	(232)
Loss attributable to the non-controlling interests of Arts JSC	(131)
Loss for the year	(363)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

22. PRINCIPAL SUBSIDIARIES (continued)

Arts JSC (continued)

	2020 HK\$'000
For the year ended 31st December:	
Other comprehensive income attributable to owners of the Company	119
Other comprehensive income attributable to the non-controlling interests of Arts JSC	67
Other comprehensive income for the year	186
Total comprehensive expense attributable to owners of the Company	(113)
Total comprehensive expense attributable to the non-controlling interests of Arts JSC	(64)
Total comprehensive expense for the year	(177)
Net cash used in operating activities	(61)
Net cash used in investing activities	(24,470)
Net cash generated from financing activities	29,471
Net increase in cash and cash equivalents	4,940

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23. INTANGIBLE ASSETS

	Trademark <i>HK\$'000</i>	Customer relationships <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January, 2019	4,680	13,026	17,706
Exchange realignment	—	122	122
At 31st December, 2019 and 1st January, 2020	4,680	13,148	17,828
Exchange realignment	—	703	703
At 31st December, 2020	4,680	13,851	18,531
Amortisation and impairment			
At 1st January, 2019	2,520	5,790	8,310
Provided for the year	—	1,300	1,300
Exchange realignment	—	69	69
At 31st December, 2019 and 1st January, 2020	2,520	7,159	9,679
Provided for the year	—	1,304	1,304
Impairment loss	1,595	—	1,595
Exchange realignment	—	463	463
At 31st December, 2020	4,115	8,926	13,041
Carrying amount			
At 31st December, 2020	565	4,925	5,490
At 31st December, 2019	2,160	5,989	8,149

Trademark purchased from an independent third party in 2006 is considered by the management of the Group as having an indefinite useful lives because it expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful lives is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. The Group identifies the business operated with the trademark as an individual CGU of selling a specific brand of presentation frames and sunglasses. Particulars of the impairment testing are disclosed below.

The recoverable amount of the trademark has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 11.28% (2019: 11.93%). The cash flows beyond the 5-year period are extrapolated using a 0% (2019: 0%) growth rate. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

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For the year ended 31st December, 2020

23. INTANGIBLE ASSETS (continued)

Based on the discounted cash flow projections, the recoverable amount of the trademark is estimated to be lower (2019: higher) than its carrying amount. Accordingly, the management of the Group determined that impairment loss of HK\$1,595,000 (2019: nil) on trademark. The impairment loss of intangible assets recognised was due to the outbreak of COVID-19 and thus the revenue dropped sharply.

24. GOODWILL

	2020 HK\$'000	2019 HK\$'000
Cost		
At 1st January	7,987	7,760
Exchange realignment	273	227
At 31st December	8,260	7,987
Accumulated impairment losses		
At 1st January and 31st December	—	—
Carrying amount		
At 31st December	8,260	7,987

Goodwill arising from the acquisition of a non-wholly-owned subsidiary which is engaged in trading in prescription frames and sunglasses in United Kingdom. The Group identifies the business operated by the non-wholly-owned subsidiary as an individual CGU. Particulars of impairment testing on goodwill are disclosed below.

In addition to goodwill, property, plant and equipment, right-of-use assets and other intangible assets that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

The recoverable amount of the CGU has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculations uses cash flow projections based on the latest financial budgeted approved by the Company's management covering a period of 5 years, and at a discount rate of 11.94% (2019: 11.03%). The cash flows beyond the 5-year period are extrapolated using a 0% (2019: 0%) growth rate. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

The goodwill was tested for impairment at the end of each reporting period by comparing the carrying amount of the CGU with the recoverable amount of the CGU. The management of the Group determined that there is no impairment loss for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

25. INVESTMENT IN AN ASSOCIATE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of the Group's interest in an associate (<i>Notes</i>)		
— Unlisted	36,647	36,647
— Amortisation of intangible assets	(4,437)	(3,545)
— Exchange realignment	(616)	(1,485)
	31,594	31,617
Share of post-acquisition profit or loss and other comprehensive income	14,131	6,543
Group's share of carrying amount of interests	45,725	38,160

Notes:

(a) Breakdown of cost of investment

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Share of 57.5% interest in net assets	21,333	21,333
Intangible assets — customer relationships	9,922	9,922
Goodwill	5,392	5,392
	36,647	36,647

(b) Movement of intangible assets — customer relationships

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1st January	5,262	3,479
Additions	—	2,708
Amortisation recognised in profit or loss	(892)	(810)
Exchange realignment	414	(115)
At 31st December	4,784	5,262

The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

25. INVESTMENT IN AN ASSOCIATE (continued)

Notes: (continued)

(c) Movement of goodwill

	2020 HK\$'000	2019 HK\$'000
At 1st January	5,022	1,841
Additions	—	3,261
Exchange realignment	455	(80)
At 31st December	5,477	5,022

Goodwill arising from the acquisition of an associate which is engaged in manufacture of and trading in prescription frames and sunglasses. The Group identifies the business operated as an individual CGU.

The Group's trade debtor balance and trade creditor balance due from/to the associate are disclosed in notes 31 and 34 respectively.

Details of the associate at the end of the reporting period are as follows:

Name	Place of incorporation	Issued and paid up capital	Percentage of ownership interest/ voting power		Principal activities
			2020	2019	
Trenti Industria Occhiali S.p.A. ("Trenti")	Italy	EUR305,560	57.5%	57.5%	Manufacture of and trading in prescription frames and sunglasses

The above investment in an associate is held through a wholly-owned subsidiary of the Company.

Although, the Group holds 57.5% of the issued share capital of Trenti. However, under the agreement, the other shareholders control the composition of the board of directors of Trenti and have control over Trenti. The Directors consider that the Group does have significant influence over Trenti and it is therefore classified as an associate of the Group.

On 27th March, 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate ("Vendor"), pursuant to which the Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of EUR787,500 (equivalent to approximately HK\$6,941,000) and reinvestment of dividends (see below). The transaction was completed on 10th April, 2019. Up to 31st December, 2020, the Group has paid EUR630,000 (equivalent to approximately HK\$5,553,000) (2019: EUR630,000 (equivalent to approximately HK\$5,553,000)) to the Vendor. The Group has further paid EUR47,250 (equivalent to approximately HK\$449,000) in January 2021 and the remaining consideration of EUR110,250 (equivalent to approximately HK\$1,048,000) will be settled on 31st December, 2022 and 31st January, 2025 pursuant to the share purchase agreement.

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For the year ended 31st December, 2020

25. INVESTMENT IN AN ASSOCIATE (continued)

For the year ended 31st December, 2019, the Group was entitled to receive the dividends declared by the associate of EUR902,500 (equivalent to approximately HK\$7,834,000). The Group has received dividends in cash of EUR297,850 (equivalent to approximately HK\$2,552,000) (net of withholding tax of EUR104,650 (equivalent to approximately HK\$897,000)) and EUR370,000 (equivalent to approximately HK\$3,245,000) (net of withholding tax of EUR130,000 (equivalent to approximately HK\$1,140,000)) which were reinvested into the associate.

The following tables show information on the associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the associate.

	2020	2019
Percentage of ownership interest/voting rights held by the Group	<i>57.5%/57.5%</i>	<i>57.5%/57.5%</i>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 31st December:		
Non-current assets	21,561	18,134
Current assets	103,694	131,998
Non-current liabilities	—	—
Current liabilities	(67,090)	(105,163)
Net assets	58,165	44,969
Group's share of net assets	33,445	25,857
Goodwill	5,477	5,022
Intangible assets	4,784	5,262
Other adjustments	2,019	2,019
Group's share of carrying amount of interests	45,725	38,160
For the year ended 31st December:		
Revenue	154,531	220,534
Profit for the year	8,586	10,799
Other comprehensive income/(expense)	4,610	(1,504)
Total comprehensive income	13,196	9,295
Dividend received from the associate	—	3,449
Dividend reinvested to the associate	—	4,385

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26. INVESTMENT IN A JOINT VENTURE

	2020 HK\$'000	2019 HK\$'000
Cost of unlisted investment in joint venture (Note)	1,041	1,041
Share of post-acquisition profit or loss and other comprehensive income	196	196
Loan to a joint venture	1,237 3,714	1,237 3,714
Impairment loss recognised in profit or loss	4,951 (4,951)	4,951 (4,951)
	—	—

Note: During the year ended 31st December, 2012, the Group acquired 25% interest in a joint venture at a cash consideration of approximately HK\$1,017,000. During the year ended 31st December, 2016, the Group further acquired 2% interest in the joint venture at a cash consideration of approximately HK\$24,000. Goodwill of HK\$708,000 brought forward is included in the cost of investment in joint venture.

The loan to the joint venture of HK\$3,714,000 (2019: HK\$3,714,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period.

The Group's trade debtor balance due from the joint venture is disclosed in note 31.

Details of the joint venture at the end of the reporting period are as follows:

Name	Place of incorporation	Paid up capital	Percentage of ownership interest/ voting power		Principal activities
			2020	2019	
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited") ("Guangzhou Jiashimei")	PRC	RMB1,000,000	27%	27%	Trading in prescription frames and sunglasses

The above investment in a joint venture is held through a wholly-owned subsidiary of the Company.

In terms of a contractual agreement drawn up and signed among all shareholders of Guangzhou Jiashimei, all decisions on financial policies must be agreed by unanimous consent among all shareholders of the entity. Accordingly, there is contractual sharing of control over Guangzhou Jiashimei and the investment in that entity is accounted for by the Group as an interest in joint venture.

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26. INVESTMENT IN A JOINT VENTURE (continued)

The following tables show information on the joint venture that is material to the Group. This joint venture is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the joint venture.

	2020	2019
Percentage of ownership interest/voting rights held by the Group	27%/27%	27%/27%

	2020 HK\$'000	2019 HK\$'000
At 31st December:		
Non-current assets	32	32
Current assets	18,474	18,474
Non-current liabilities	(13,810)	(13,810)
Current liabilities	(2,572)	(2,572)
Net assets	2,124	2,124
Group's share of net assets	573	573
Goodwill	708	708
Loan	1,281	1,281
Other adjustments	3,714	3,714
	(44)	(44)
Impairment losses recognised in profit or loss	4,951	4,951
	(4,951)	(4,951)
Group's share of carrying amount of interests	—	—
For the year ended 31st December:		
Revenue	—	—
Profit for the year	—	—
Other comprehensive income	—	—
Total comprehensive income	—	—
Dividend received from the joint venture	—	—

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27. LOAN RECEIVABLE

The loan receivable is granted to an independent corporate customer and is denominated in US\$. The amount carries fixed interest rate at 5% per annum and is repayable through 24 quarterly instalments of US\$72,500 (equivalent to approximately HK\$562,000) commencing in October 2016 with a balance payment of US\$17,500 (equivalent to approximately HK\$136,000) in October 2022. The amount is secured by all assets held by the corporate customer.

As at 31st December, 2019, included in the Group's loan receivable balance are debtors with aggregate carrying amount of US\$1,757,500 (equivalent to approximately HK\$13,689,000) which are past due more than 360 days as at the reporting date. The Directors consider credit risks have increased significantly and those past due more than 360 days are considered as credit-impaired.

Included in the carrying amount of loan receivable as at 31st December, 2019 is accumulated impairment losses of US\$1,757,500 (equivalent to approximately HK\$13,689,000). Details of impairment assessment for the year ended 31st December, 2019 are set out in note 6(c).

The Directors assess the collectability on the carrying value of the loan receivable at the end of each reporting period. Based on the assessment, the recoverable amount of the loan receivable is estimated to be less than its carrying amount with reference to the repayments history and the net realisable value of all assets of this corporate customer. Accordingly, the management of the Group determined that an impairment loss of the entire amount of loan receivable was recognised in profit or loss in previous years. The Group further assessed and determined that the entire amount of loan receivable was not recoverable and has been fully written off.

28. EQUITY INVESTMENT AT FVTOCI

	2020 HK\$'000	2019 HK\$'000
Unlisted equity security	48	—
Analysed as: Non-current asset	48	—

The carrying amount of the Group's equity investment at FVTOCI is denominated in the functional currency of the relevant group entity.

The Group invested RMB2,500,000 (equivalent to approximately HK\$2,711,000) in a company incorporated in the PRC and owned 5% equity interests in that company.

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29. EQUITY INVESTMENT AT FVTPL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Listed investment, at fair value		
Equity security	8,875	—
Analysed as:		
Non-current asset	8,875	—

The fair value of listed security is based on current bid price.

The carrying amount of the Group's equity investment at FVTPL is denominated in the functional currency of the relevant group entity.

30. INVENTORIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials	27,229	28,762
Work in progress	59,562	73,775
Finished goods	42,329	38,826
	129,120	141,363

Because of the change in the market conditions of the Group's products during the year, there was a significant decrease (2019: increase) in the net realisable value of inventories. As a result, allowance for inventories of HK\$8,831,000 (2019: reversal of allowance of HK\$10,165,000) was made.

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31. DEBTORS, DEPOSITS AND PREPAYMENTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade debtors from contracts with customers	210,138	305,536
Less: Allowance for credit losses	(7,251)	(61,749)
	202,887	243,787
Bills receivables	368	1,126
Other debtors, deposits and prepayments	25,150	28,237
	228,405	273,150

The carrying amounts of the Group's trade and other debtors are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	42,007	20,885
RMB	388	852
EUR	6,306	5,785
US\$	26,066	37,265
JPY	1,083	1,041

The following is the ageing analysis of trade debtors net of allowance for credit losses presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 90 days	173,844	182,242
91 – 180 days	25,824	51,875
More than 180 days	3,219	9,670
	202,887	243,787

The following is the ageing analysis of bills receivables presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 90 days	368	1,126

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31. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

As at 31st December, 2020, included in the Group's trade debtors balance are debtors with aggregate carrying amount of HK\$38,194,000 (2019: HK\$49,593,000) which are past due as at the reporting date. Out of the past due balances, HK\$3,990,000 (2019: HK\$9,646,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

The Group has a policy of allowing a credit period of 30 days to 120 days to its trade debtors. No interest is charged on the trade debtors. The Group has provided fully for all receivables past due beyond 360 days because historical experience showed that receivables that are past due beyond 360 days are generally not recoverable. Trade debtors past due for less than 360 days are provided for based on estimated irrecoverable amounts from the sales of goods, determined by reference to historical settlement records and subsequent settlement.

Details of impairment assessment of trade and other debtors for the year ended 31st December, 2020 are set out in note 6(c).

Trade debtors due from the associate, joint venture and non-controlling shareholder of a subsidiary

Included in the Group's trade debtors is an amount due from the Group's associate of HK\$18,536,000 (2019: HK\$26,907,000) net of allowance for credit losses of HK\$206,000 (2019: HK\$299,000), an amount due from the Group's joint venture of HK\$38,000 (2019: HK\$94,000) net of allowance for credit losses of HK\$2,000 (2019: HK\$5,000) and an amount due from the non-controlling shareholder of a subsidiary of the Group of nil (2019: HK\$460,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured with carrying amount of HK\$1,783,000 (2019: HK\$3,982,000) which are past due balances, HK\$90,000 (2019: HK\$651,000) has been past due 90 days or more and is not considered as in default. An impairment loss of HK\$208,000 (2019: HK\$304,000) has been recognised in respect of the amounts outstanding from the associate and joint venture.

32. OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
At 1st January	—	881
Imputed interest income recognised in profit or loss	—	71
Repayments	—	(947)
Exchange realignment	—	(5)
At 31st December	—	—

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For the year ended 31st December, 2020

32. OTHER RECEIVABLES (continued)

On 1st January, 2015, Stepper HK, a non-wholly-owned subsidiary of the Company, entered into four sale and purchase agreements with four members of the management team of Stepper UK (“Stepper UK Team”), a non-wholly-owned subsidiary of the Company, pursuant to which Stepper HK would sell and the Stepper UK Team would purchase a total of 25% of the issued share capital of Stepper UK for an aggregate consideration of GBP718,250 (equivalent to approximately HK\$8,669,000) (the “Stepper UK Price”). The Stepper UK Price was determined by the parties at arm’s length negotiations with reference to the price paid by the Group for the acquisition of Stepper UK in July 2014 and the post-acquisition profits earned by Stepper UK. The purpose of the sale of the 25% interest in Stepper UK was to motivate the Stepper UK Team towards higher level of performance of Stepper UK.

On 1st January, 2015, Stepper HK also entered into four sale and purchase agreements with four members of the management team of Stepper France (“Stepper France Team”), a non-wholly-owned subsidiary of the Company, pursuant to which (i) Stepper HK would sell and the Stepper France Team would purchase a total of 20% of the issued share capital of Stepper France for an aggregate consideration of EUR10,000 (equivalent to approximately HK\$94,000) (the “Stepper France Share Price”) and (ii) Stepper HK would assign its interest in its loan to Stepper France with a face value of EUR240,000 (equivalent to approximately HK\$2,263,000) to the Stepper France Team for an aggregate consideration of EUR240,000 (equivalent to approximately HK\$2,263,000) (the “Stepper France Loan Price”). The Stepper France Share Price and the Stepper France Loan Price were determined by the parties at arm’s length negotiations with reference to the nominal value of the share capital of Stepper France transferred and face value of the shareholder’s loan assigned respectively. The purpose of the sale of the 20% interest in Stepper France and assignment of shareholder’s loan was to motivate the Stepper France Team towards higher level of performance of Stepper France.

On 31st July, 2016, Stepper HK entered into a sale and purchase agreement with a member of the Stepper UK Team, Stepper HK would buy back the 15% of the issued share capital of Stepper UK which was sold to this member on 1st January, 2015. The reason of the buy back was the resignation of this member from the Stepper UK Team. On 5th August, 2016, this member had repaid in full the outstanding consideration of GBP344,760 (equivalent to approximately HK\$3,527,000) pursuant to the sale and purchase agreement dated 1st January, 2015.

On 31st July, 2016, Stepper HK also entered into a sale and purchase agreement with a member of the Stepper France Team, (i) Stepper HK would buy back the 3% of the issued share capital of Stepper France which was sold to this member on 1st January, 2015 and (ii) this member would assign the interest in loan to Stepper France with a face value of EUR36,000 to Stepper HK which was assigned to this member on 1st January, 2015. The reason of the buy back and assignment was the resignation of this member from the Stepper France Team. On 5th August, 2016, this member had repaid in full the outstanding consideration of EUR30,000 (equivalent to approximately HK\$258,000) pursuant to the sale and purchase agreement dated 1st January, 2015.

The other receivables were the consideration receivables from the Stepper UK Team and the Stepper France Team. The considerations were repayable by instalments and were fully repaid in December 2019.

The interest-free other receivables were carried at amortised cost, which represented the difference between the carrying amount and the present value of the estimated future cash flows discounted at an effective interest rate of 3.70% and 4.46% for Stepper UK Price and Stepper France Loan Price respectively.

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33. BANK BALANCES AND CASH

Bank balances carry market interest rates which range from 0.001% to 3% (2019: 0.001% to 0.30%) per annum in 2020.

The carrying amounts of the Group's bank balances and cash are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	10,550	18,355
RMB	468	156
EUR	2,557	2,955
US\$	14,425	19,718
JPY	1,629	632
GBP	2,845	6,153

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

34. CREDITORS AND ACCRUED CHARGES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade creditors	111,836	90,633
Other creditors and accrued charges	278,184	257,464
	390,020	348,097

The carrying amounts of the Group's trade and other creditors are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	25,759	24,430
RMB	746	5,462
EUR	5,844	5,071
US\$	639	653
JPY	425	776

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34. CREDITORS AND ACCRUED CHARGES (continued)

The ageing analysis of trade creditors, based on the invoice date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 – 60 days	68,681	81,618
61 – 120 days	34,620	6,676
More than 120 days	8,535	2,339
	111,836	90,633

The credit period on purchase of goods is 60 days to 120 days. No interest is charged by the trade creditors. The Group has financial risk management policies in place to ensure that all payables to major suppliers are paid within the credit timeframe.

Trade creditor due to the associate

Included in the Group's trade creditors is an amount due to the Group's associate of HK\$304,000 (2019: HK\$453,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

35. CONTRACT LIABILITIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Optical products	5,910	12,253

Movements in contract liabilities:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1st January	12,253	13,363
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(11,667)	(12,770)
Increase in contract liabilities as a result of billing in advance	5,324	11,660
At 31st December	5,910	12,253

The amount of billings in advance of performance received that is expected to be recognised as income after more than one year is HK\$586,000 (2019: HK\$593,000).

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35. CONTRACT LIABILITIES (continued)

Typical payments terms which impact on the amount of contract liabilities recognised are as follows:

- Optical products

When the Group receives a deposit before the production activity commences, this 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 drop was mainly due to the outbreak of COVID-19 and thus less orders placed by the customers.

36. REFUND LIABILITIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Arising from right of return	4,455	3,287

37. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	1,334	718	1,039	688
In the second to fifth years, inclusive	3,027	1,408	2,552	1,377
Over five years	71	—	70	—
	4,432	2,126	3,661	2,065
Less: Future finance charges	(771)	(61)	N/A	N/A
Present value of lease obligations	3,661	2,065	3,661	2,065
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1,039)	(688)
Amount due for settlement after 12 months			2,622	1,377

The weighted average incremental borrowing rates applied to lease liabilities range from 1.12% to 1.75% (2019: from 1.75% to 10.25%).

The carrying amounts of the Group's lease liabilities are denominated in the functional currencies of the relevant group entities.

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38. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Secured bank borrowings	19,780	25,304

The bank borrowings are repayable as follows (*Note*):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	5,691	5,486
More than one year, but not exceeding two years	5,835	5,658
More than two years, but not exceeding five years	8,254	14,160
	19,780	25,304
Portion of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	(19,780)	(25,304)
Amounts due after one year shown under non-current liabilities	—	—

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

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK\$14,791,000 (2019: HK\$18,979,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties with carrying amount of HK\$140,490,000 (2019: HK\$171,920,000).

A bank borrowing of HK\$4,989,000 (2019: HK\$6,325,000) is secured by the Group's leasehold land and buildings with carrying amount of HK\$28,151,000 (2019: HK\$29,296,000) and carries interest at one month HIBOR plus 1.8%.

The effective interest rate per annum at the end of the reporting period on the bank borrowings of the Group were as follows:

	2020	2019
Variable-rate borrowings	2.49%	3.11%

The carrying amounts of the Group's bank borrowings are denominated in the functional currencies of the relevant group entities.

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39. DERIVATIVE FINANCIAL INSTRUMENTS

On 27th March, 2019, the Group entered into an option agreement with an independent third party (“Buyer”), pursuant to which the Buyer and the Group granted each other reciprocal call and put options in respect of 12.5% of the issued share capital of the Group’s associate, the exercise price of the option ranges from EUR1,000,000 (equivalent to approximately HK\$8,863,000) to EUR1,562,500 (equivalent to approximately HK\$13,848,000). The Buyer is entitled to exercise the call option during the period from 1st October, 2020 to 31st March, 2021 or the period from 1st October, 2021 to 31st March, 2022. The Group is entitled to exercise the put option during the period from 1st April, 2022 to 30th September, 2022.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount of put option (non-current asset):		
At 1st January	288	—
Fair value at initial recognition date	—	1,814
Increase/(decrease) in fair value at the end of reporting period	1,285	(1,526)
At 31st December	1,573	288

The carrying amount of the Group’s derivative financial asset are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
EUR	1,573	288

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount of call option (current liability):		
At 1st January	7,246	—
Fair value at initial recognition date	—	3,000
(Decrease)/increase in fair value at the end of reporting period	(2,985)	4,246
At 31st December	4,261	7,246

The carrying amount of the Group’s derivative financial liability are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
EUR	4,261	7,246

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39. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair values of options at initial recognition date and the end of reporting period were revalued by Vigers. The valuations have been arrived at using binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Major inputs to the model include the valuations of the options which were determined using expected volatility of share price and dividend yield.

40. DEFERRED TAX

The following are the deferred tax assets and (liabilities) recognised by the Group.

	Undistributable profits of an associate <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Other temporary differences <i>HK\$'000</i> <i>(Note)</i>	Total <i>HK\$'000</i>
At 1st January, 2019	(4,327)	(4,600)	(2,704)	(11,631)
Credit/(charge) to profit or loss	115	(117)	5,567	5,565
Exchange realignment	—	(2)	—	(2)
At 31st December, 2019 and 1st January, 2020	(4,212)	(4,719)	2,863	(6,068)
(Charge)/credit to profit or loss	(1,745)	3,419	(169)	1,505
Exchange realignment	—	19	—	19
At 31st December, 2020	(5,957)	(1,281)	2,694	(4,544)

Note: The amount represents the net temporary differences arising from capitalisation of production cost of inventories at Group level and unrealised profits on the inventories arising from intragroup sales.

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position purpose:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Deferred tax assets	3,287	3,297
Deferred tax liabilities	(7,831)	(9,365)
	(4,544)	(6,068)

At the end of the reporting period, the Group has unused tax losses of HK\$587,564,000 (2019: HK\$554,147,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of total HK\$41,053,000 (2019: HK\$38,510,000) that will expire from 2021 to 2025 (2019: expire from 2020 to 2024). Other tax losses may be carried forward indefinitely.

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40. DEFERRED TAX (continued)

At the end of the reporting period, the Group has deductible temporary differences of HK\$1,017,424,000 (2019: HK\$414,166,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

41. SHARE CAPITAL

	Number of shares		Nominal value	
	2020	2019	2020 HK\$'000	2019 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of year	1,000,000,000	1,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning and end of year	386,263,374	386,263,374	38,626	38,626

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

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

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises bank borrowings and lease liabilities. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves) except for non-controlling interests. As the end of the reporting period, the Group has debt outstanding of HK\$23,441,000 (2019: HK\$27,369,000) and the debt-to-adjusted capital has not been disclosed as the Group has net cash in both years.

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Company receives a report from the share registrar monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31st December, 2020, the approximate percentage of the total shares in public hands were 46% (2019: 49%).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

42. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets		
Investment in a subsidiary	139,040	139,040
Amount due from a subsidiary	128,676	128,223
	267,716	267,263
Current assets		
Deposits and prepayments	303	155
Bank balances	123	682
	426	837
Current liabilities		
Accrued charges	1,426	1,397
Dividend payable	58	58
	1,484	1,455
Net current liabilities	(1,058)	(618)
NET ASSETS	266,658	266,645
Capital and reserves		
Share capital	38,626	38,626
Reserves	228,032	228,019
EQUITY	266,658	266,645

Approved by the Board of Directors on 29th March, 2021 and is signed on its behalf by:

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

42. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2019	118,706	105,369	4,611	228,686
Loss for the year	—	—	(667)	(667)
At 31st December, 2019 and 1st January, 2020	118,706	105,369	3,944	228,019
Profit for the year	—	—	13	13
At 31st December, 2020	118,706	105,369	3,957	228,032

Note: The contributed surplus represents a difference of HK\$105,469,000 between the consolidated net asset value of Allied Power Inc. and the nominal amount of the share capital issued by the Company and the subsequent capitalisation of HK\$100,000 of nil paid shares of the Company pursuant to the group reorganisation in 1996.

43. RESERVES

(a) Group

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

(b) Nature and purpose of reserves

(i) Special reserve

Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

(ii) Other reserve

Other reserve arose from the acquisition of additional interests in subsidiaries from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

43. RESERVES (continued)

(b) Nature and purpose of reserves (continued)

(iii) Exchange reserve

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

(iv) Financial assets at FVTOCI reserve

The financial assets at FVTOCI reserve comprises the cumulative net change in the fair value of financial assets at FVTOCI held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(m) to the consolidated financial statements.

44. RETIREMENT BENEFIT SCHEMES

The Group has participated in a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

As stipulated under the rules and regulations in the PRC, the subsidiaries established in the PRC are required to contribute certain percentage of payroll costs of its employees to a state-managed retirement scheme operated by the provincial governments for its employees in the PRC. After the contribution, the Group has no further obligation for actual payment of the retirement benefits.

The retirement benefit scheme contributions arising from the above retirement schemes charged to profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK\$11,505,000 (2019: HK\$36,781,000) represents contributions paid and payable to these schemes by the Group. At the end of the reporting period, there was no forfeited contribution available to reduce future contributions in both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major Non-cash transactions

Additions to right-of-use assets during the year of HK\$2,651,000 (2019: HK\$3,158,000) were financed by leases liabilities.

(b) Reconciliation of liabilities arising from financing activities

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

	Bank borrowings <i>HK\$'000</i>	Dividend payable <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2019	30,641	—	3,025	33,666
Financing cash flows	(6,178)	(807)	(1,003)	(7,988)
Interest expenses	841	—	45	886
Dividends declared	—	807	—	807
Exchange realignment	—	—	(2)	(2)
At 31st December, 2019 and 1st January, 2020	25,304	—	2,065	27,369
Financing cash flows	(6,144)	(264)	(1,292)	(7,700)
Additions	—	—	2,651	2,651
Interest expenses	620	—	342	962
Dividends declared	—	264	—	264
Exchange realignment	—	—	(105)	(105)
At 31st December, 2020	19,780	—	3,661	23,441

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within operating cash flows	486	1,797
Within investing cash flows	33,857	—
Within financing cash flows	1,292	1,003
	35,635	2,800

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases (continued)

These amounts relate to the following:

	2020 HK\$'000	2019 HK\$'000
Lease rental paid	1,778	2,800
Purchase of leased properties and leasehold land	33,857	—
	35,635	2,800

46. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2020 HK\$'000	2019 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— set up cost of investment in subsidiaries	123,961	177,252
— buildings under construction	7,980	1,068
— plant and machinery	351	2,183
— furniture, fixture and office equipment	29	187
	132,321	180,690

47. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group regularly entered into short-term leases for offices and warehouses. As at 31st December, 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 21.

At 31st December, 2020, the Group entered into a new lease for office that are not yet commenced, with non-cancellable period of 3 years with extension option. The total future undiscounted cash flows over the non-cancellable period amount to HK\$297,000.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

47. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

Operating leases relate to investment property owned by the Group with lease terms of one to three years. All operating lease contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Minimum lease payments receivable on leases are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	2,306	3,151
In the second year	797	2,294
In the third year	—	797
	3,103	6,242

The following table presents the amounts reported in profit or loss:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Lease income on operating leases	3,145	4,382

48. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sales/(sales return) of prescription frames and sunglasses to:		
an associate	45,238	53,573
a joint venture	(4)	624
a non-controlling shareholder of a subsidiary	334	4,979
	45,568	59,176
Purchase of prescription frames, sunglasses and raw materials from an associate	674	1,455

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2020

48. RELATED PARTY TRANSACTIONS (continued)

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year: (continued)

The Directors are of the opinion that the above transactions with the associate, joint venture and non-controlling shareholder of a subsidiary were conducted in the usual course of business.

Other than the above, the details of loan to, trade debtors from and trade creditor to the associate, joint venture and non-controlling shareholder of a subsidiary are shown in notes 26, 31 and 34 respectively. No guarantee has been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

- (b) Compensation of key management personnel of the Group:

	2020 HK\$'000	2019 HK\$'000
Short term benefits	9,745	10,479
Post-employment benefits	568	569
	10,313	11,048

The remuneration of executive directors and key executives was determined by the remuneration committee of the Company having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was recommended by the board of Directors and approved by the shareholders of the Company at the annual general meeting.

49. EVENTS AFTER THE REPORTING PERIOD

On 24th March, 2021, an indirect wholly-owned subsidiary of the Company (the “Purchaser”), three independent third parties (the “Sellers”) and a company is principally engaged in optical lens business (the “Target Company”) entered into an equity transfer agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Sellers have conditionally agreed to sell an aggregate of 55% equity interest in the Target Company at the total consideration of RMB46.5 million (equivalent to approximately HK\$55.4 million) (the “Consideration”), subject to adjustment. The Purchaser and the Sellers further agreed to inject an aggregate of RMB10 million (equivalent to approximately HK\$11.9 million) to the Target Company in cash based on the percentage of their respective equity holding in the Target Company. Accordingly, the Purchaser will inject its portion of RMB5.5 million (equivalent to approximately HK\$6.5 million) in cash after completion of the transfer of the 55% equity interest to the Purchaser; and the Sellers will inject its portion of RMB4.5 million (equivalent to approximately HK\$5.4 million) after receipt of the balance payment of the Consideration from the Purchaser. Details of transaction is disclosed in the announcement of the Company which published on 24th March, 2021.

Except for the above, there is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

Financial Summary

RESULTS

	For the year ended 31st December				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	
REVENUE	1,255,126	1,028,188	1,196,013	1,040,962	742,618
PROFIT/(LOSS) BEFORE TAX	844,030	(657,539)	(25,031)	(129,283)	(512,299)
INCOME TAX EXPENSE	(3,612)	(11,408)	(9,555)	(2,470)	(556)
PROFIT/(LOSS) FOR THE YEAR	840,418	(668,947)	(34,586)	(131,753)	(512,855)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	835,754	(674,549)	(38,294)	(136,292)	(511,830)
NON-CONTROLLING INTERESTS	4,664	5,602	3,708	4,539	(1,025)
	840,418	(668,947)	(34,586)	(131,753)	(512,855)

ASSETS AND LIABILITIES

	At 31st December				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	
TOTAL ASSETS	2,493,737	1,659,411	1,542,744	1,349,027	914,377
TOTAL LIABILITIES	(657,145)	(492,592)	(469,462)	(420,433)	(445,445)
	1,836,592	1,166,819	1,073,282	928,594	468,932
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,820,075	1,144,587	1,045,415	896,658	426,544
NON-CONTROLLING INTERESTS	16,517	22,232	27,867	31,936	42,388
	1,836,592	1,166,819	1,073,282	928,594	468,932

Properties Held for Investment

LIST OF INVESTMENT PROPERTIES

Location	Type of properties	Lease term
32nd Whole Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Office premises	Medium-term lease
Car parking spaces no. P35 to P43 on 2nd Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Car parks	Medium-term lease