

KELFRED

HOLDINGS LIMITED
恒發光學控股有限公司

2023
Annual Report



Incorporated in the Cayman Islands
with limited liability
Stock code: 1134

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CORPORATE INFORMATION

Executive Directors

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

Non-Executive Directors

Mr. Kwok Mau Kwan
Ms. Chan Yin Wah

Independent Non-Executive Directors

Mr. Hong Sze Lung
Mr. Chu Kin Ming
Mr. Chan Hon Wah

Company Secretary

Ms. Leong Kai Weng Subrina

Authorised Representatives

Mr. Kwok Kwan Fai
Ms. Leong Kai Weng Subrina

Audit Committee

Mr. Chu Kin Ming (*Chairman*)
Mr. Hong Sze Lung
Mr. Chan Hon Wah

Remuneration Committee

Mr. Chan Hon Wah (*Chairman*)
Mr. Chu Kin Ming
Mr. Hong Sze Lung
Mr. Kwok Kwan Fai

Nomination Committee

Mr. Kwok Kwan Fai (*Chairman*)
Mr. Chan Hon Wah
Mr. Chu Kin Ming
Mr. Hong Sze Lung

Risk Management Committee

Mr. Hong Sze Lung (*Chairman*)
Mr. Chu Kin Ming
Mr. Chan Hon Wah

Registered Office

Windward 3, Regatta Office Park,
P.O. Box 1350, Grand Cayman KY1-1108,
Cayman Islands

Auditor

RSM Hong Kong
Certified Public Accountants
Registered Public Interest Equity Auditor
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

Headquarters and Principal Place of Business in Hong Kong

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

Cayman Islands Principal Share Registrar and Transfer Office

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park,
P.O. Box 1350, Grand Cayman KY1-1108,
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Legal Advisers

As to Hong Kong law:
Jeffrey Mak Law Firm

Principal Banks

DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

Company Website

www.kelfred.com.hk

Stock Code

1134

CHAIRMAN'S STATEMENT

To all shareholders,

On behalf of the board of directors (the “**Board**”) of Kelfred Holdings Limited (the “**Company**”), I am pleased to present the annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2023.

The year 2023 proved to be a challenging year for the global economy, marked by sluggish growth and persistent uncertainties. Multiple factors contributed to this unfavorable situation, including geopolitical tensions, trade disputes, and lingering effects of the pandemic. Despite initial hopes for a robust recovery, many economies faced headwinds that hindered their progress. Weak consumer spending, reduced business investments, and supply chain disruptions further dampened economic prospects. Additionally, rising inflationary pressures and tightening monetary policies added to the complexity of the economic landscape. In light of these challenges, businesses needed to adopt prudent strategies, adapt to changing market conditions, and prioritize resilience to navigate the difficult economic environment. Hence, the Group recorded a net profit of HK\$1.4 million in 2023, reduced from HK\$9.2 million in 2022.

The Group constantly aims to increase its competitiveness through enhancing the production capacity. In February 2023, the Group has moved its Shenzhen plant to a new facility with a larger production capacity. An increased capacity makes our businesses more resilient and will enable the Group to better prepare for the growth now and in the future.

Looking ahead, the Group remains prudent and optimistic about the prospects of its business in short run. The Group will follow a cautious approach to ensure continuous, steady and effective business and operation development in 2024 for safeguarding the shareholders’ interests. The Group will also continue to seek new business possibilities in order to achieve better business diversification.

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

Kwok Kwan Fai

Chairman

Hong Kong, 26 March 2024

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

Year ended 31 December

	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000
Revenue	413,395	354,183	434,732	465,430	393,284
Cost of sales	(317,106)	(294,043)	(366,290)	(389,413)	(336,305)
Gross profit	96,289	60,140	68,442	76,017	56,979
Other income	3,091	6,550	8,510	9,256	18,212
Other gains and losses	3,658	(7,406)	(3,182)	3,880	5,890
Reversal of impairment loss/(impairment loss) for trade receivables	–	(1,684)	(189)	433	110
Gain on partial disposal of subsidiaries	–	–	–	58	–
Gain on disposal of associates	–	–	–	–	– ⁽ⁱ⁾
Share of losses of associates	–	–	–	(3)	– ⁽ⁱ⁾
Selling and distribution expenses	(21,300)	(14,407)	(13,762)	(14,615)	(17,115)
Administrative and other operating expenses	(66,095)	(54,792)	(60,924)	(63,630)	(60,245)
Profit/(loss) from operations	15,643	(11,599)	(1,105)	11,396	3,831
Finance costs, net	(1,903)	(591)	(482)	(715)	(1,653)
Profit/(loss) before tax	13,740	(12,190)	(1,587)	10,681	2,178
Income tax expense	(4,637)	(1,331)	(553)	(1,498)	(790)
Profit/(loss) for the year	9,103	(13,521)	(2,140)	9,183	1,388
Attributable to:					
Owners of the Company	8,377	(13,402)	(2,140)	9,183	1,388
Non-controlling interests	726	(119)	–	–	–
	9,103	(13,521)	(2,140)	9,183	1,388

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000
Total assets	310,290	287,174	268,132	251,896	264,004
Total liabilities	(101,981)	(101,951)	(81,800)	(65,324)	(80,813)
Non-controlling interests	(1,301)	–	–	–	–
	207,008	185,223	186,332	186,572	183,191

(i) Represent amount less than HK\$1,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

For the year ended 31 December 2023, the Group recorded a revenue of approximately HK\$393.3 million, representing a decrease of approximately 15.5% as compared to the year ended 31 December 2022, generated from sales of eyewear products.

The Group is an established eyewear manufacturer in the PRC and Hong Kong that produces and sells a wide range of spectacle frames and sunglasses mainly through original design manufacturing (“**ODM**”) and original equipment manufacturing (“**OEM**”) business models. It offers integrated and customised services which include product design and development, raw materials procurement, production, quality control, packaging and delivery. In addition to the traditional OEM and ODM business models, the Group also offers its original brand manufacturing (“**OBM**”) products under the brand name “Miga”.

Leveraging over 30 years of experience in the eyewear industry, the Group prides itself on its broad network of renowned and trusted customers worldwide (who are primarily international eyewear retailers, trading companies and licensed brand owners). It has produced quality eyewear products under its customers’ designated brand names and sold the same to over 35 countries in the past few years.

The first major production base of the Group was established in Shenzhen, the PRC in 2013 and the second and self-owned production base in Jiangxi, the PRC was set up in 2016, which have made the Group capable of manufacturing eyewear products of various dimensions and specifications as required by its customers.

Throughout the year 2023, the European Union faced a multitude of economic headwinds. Geopolitical uncertainties, trade disruptions, and the ongoing recovery from the global pandemic all contributed to a challenging business environment in European Union, as a result, consumer spending patterns were impacted, and demand for consumer products experienced a significant stagnation. According to Eurostat, the statistical office of the European Union, the Eurozone GDP growth rate for 2023 was 0.4%, down from the previous year’s growth rate of 3.4%. Nevertheless, the global eyewear industry remained relatively resilient, for the “Eyewear Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2024–2029” report published by IMARC Group, the global eyewear market reached a value of US\$159.6 billion in 2023, with a year-on-year increase of 6.9%, or US\$10.3 billion compared to 2022. The Group encountered significant challenges in the European market, resulting in 15.5% decrease in revenue and 84.9% decline in profitability in 2023. These challenges stemmed from multiple factors, included decreased consumer purchasing power, shift in consumer preferences and increase in labour cost. Despite these setbacks, the Group proactively implemented cost-saving measures, streamlined our operations, and optimized our supply chain to mitigate the adverse effects on our financial performance.

Looking ahead to 2024, the Group anticipates conservatively a sluggish economic recovery in Europe. The analyst of European Commission projects a slow improvement in the Eurozone’s GDP growth rate, which estimated to be 0.9%. Uncertainties related to global trade dynamics, inflationary pressures, and regulatory changes continue to cast a shadow of uncertainty over the market.

Moving forward, the Group remains vigilant in monitoring market trends, consumer behavior, and regulatory developments. The Group will adapt the business strategies accordingly to seize emerging opportunities and mitigate potential risks. Additionally, the Group recognize the importance of sustainability and will continue to integrate this principle into the business practices.

MANAGEMENT DISCUSSION AND ANALYSIS

In conclusion, the challenging economic environment in 2023 resulted in a decline in the Group's profitability. However, the Group is committed to overcoming these obstacles and positioning ourselves for a gradual recovery in 2024.

While the eyewear business will continue to remain as the Group's core business, the management is continuously exploring potential opportunities to achieve diversification in the business and income streams of the Group and mitigate the impact of any potential risks and uncertainties.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group's revenue decreased to approximately HK\$393.3 million by approximately HK\$72.1 million or 15.5% as compared to approximately HK\$465.4 million for the year ended 31 December 2022. The decrease was mainly attributable to the decrease in the exported sales volume of spectacle frames and sunglasses, resulting from the decrease in sales orders and average selling price of eyewear products.

Cost of sales

The cost of sales of the Group decreased by approximately HK\$53.1 million or 13.6%, from approximately HK\$389.4 million for the year ended 31 December 2022 to approximately HK\$336.3 million for the year ended 31 December 2023. Such decrease was basically in line with the decrease in sales volume.

Gross profit and gross profit margin

Gross profit reduced to approximately HK\$57.0 million for the year ended 31 December 2023, by approximately HK\$19.0 million, or 25.0%, from approximately HK\$76.0 million for the year ended 31 December 2022. Such decrease in gross profit was mainly due to the decrease in the revenue of approximately 15.5%. The overall gross profit margin decreased from approximately 16.3% for the year ended 31 December 2022 to 14.5% for the year ended 31 December 2023, resulted from the decrease in average selling price and the additional cost during the period of demolition of the leased factory.

Other income

Other income increased by approximately HK\$8.9 million from approximately HK\$9.3 million for the year ended 31 December 2022 to approximately HK\$18.2 million for the year ended 31 December 2023. The increase was mainly attributable to the demolition compensation received due to demolishing of the leased factory premises during the year ended 31 December 2023, which was not available for the year ended 31 December 2022.

Other gains and losses

The Group recorded net other gains of approximately HK\$5.9 million and approximately HK\$3.9 million for the year ended 31 December 2023 and the year ended 31 December 2022 respectively. The Group recorded an increase in net exchange gains resulting from the depreciation of Renminbi ("RMB") against the United States Dollars ("USD") or Hong Kong Dollars ("HKD") for the year ended 31 December 2023, as compared to the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Reversal of impairment loss for trade receivables

The Group has recorded a reversal of impairment loss for trade receivables of approximately HK\$0.1 million for the year ended 31 December 2023, based on the expected credit loss as at 31 December 2023 calculated using simplified approach, by reference to the expected credit loss rates which took into account the actual loss over the past eight years, current economic conditions and forward-looking information. The Group recognised reversal of impairment loss for the year ended 31 December 2022 of approximately HK\$0.4 million.

Selling and distribution expenses

Selling and distribution expenses increased from approximately HK\$14.6 million for the year ended 31 December 2022 to approximately HK\$17.1 million for the year ended 31 December 2023, by approximately HK\$2.5 million or 17.1%. Such increase was primarily attributable to the increase in advertising and promotion expenses incurred in organising exhibitions in Europe since normal travel was fully resumed for the year ended 31 December 2023.

Administrative and other operating expenses

Administrative and other operating expenses decreased by approximately HK\$3.4 million or 5.3%, from approximately HK\$63.6 million for the year ended 31 December 2022 to approximately HK\$60.2 million for the year ended 31 December 2023, mainly due to the decrease in staff costs of approximately HK\$3.0 million.

Finance costs, net

The Group's net of finance costs increased by approximately HK\$1.0 million or 142.9%, to approximately HK\$1.7 million for the year ended 31 December 2023 as compared to approximately HK\$0.7 million for the year ended 31 December 2022. The increase was mainly due to the higher interest rate in utilisation of factoring of trade receivables in order to enhance the liquidity of the Group as a whole.

Income tax expense

The Group's income tax expense decreased from approximately HK\$1.5 million for the year ended 31 December 2022 to approximately HK\$0.8 million for the year ended 31 December 2023, mainly due to the recognition of deferred tax assets from taxable temporary difference associated with right-of-uses assets and lease liabilities.

Profit for the year

As a result of the foregoing, the Group recorded a decrease in profit by approximately HK\$7.8 million or 84.8%, from approximately HK\$9.2 million for the year ended 31 December 2022, to approximately HK\$1.4 million for the year ended 31 December 2023, mainly due to lower turnover and profit margin of the sale of eyewear products, partially offset by the demolition compensation income received during the year ended 31 December 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

As at 31 December 2023, the Group's total assets amounted to approximately HK\$264.0 million (2022: HK\$251.9 million) with net assets amounting to approximately HK\$183.2 million (2022: HK\$186.6 million). As at 31 December 2023, gearing ratio (total debts divided by the total equity) of the Group was approximately 8.3% (2022: 1.1%). Net debt to equity ratio (net debt, being its total debts net of bank and cash balances and pledged bank deposits, divided by total equity) of the Group was not applicable due to a net cash position of the Group as at 31 December 2023 and 2022. As at 31 December 2023, current ratio of the Group was approximately 3.1 times, representing a decrease of approximately 8.8% as compared to that of approximately 3.4 times as at the end of 2022. As at 31 December 2023, quick ratio of the Group was approximately 2.0 times, representing a decrease of approximately 13.0% as compared to that of approximately 2.3 times as at the end of 2022.

During the year ended 31 December 2023, the net assets and all of the above financial ratios declined, mainly due to the reduction of the Group's operating income.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a balanced approach to cash and financial management to ensure proper risk control, the lowering of costs of funds and to maintain an optimal level of liquidity that can meet its working capital needs and sustain the business at a healthy level, and implement various growth strategies. The Group finances its operations and growth primarily through cash generated from operations, finance lease arrangement.

As at 31 December 2023, the Group had bank and cash balances of approximately HK\$20.3 million, a decrease of approximately HK\$26.1 million as compared to approximately HK\$46.4 million as at 31 December 2022, mainly attributable to the net cash used in operations and the purchase of property, plant and equipment.

TREASURY POLICIES

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

INDEBTEDNESS

As at 31 December 2023, the Group's indebtedness comprised lease liabilities of approximately HK\$15.2 million, respectively. Its lease liabilities are denominated in HKD and RMB. Interest rates for all leases are fixed on the contract dates and thus expose the Group to fair value interest rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

The maturity of lease liabilities as at 31 December 2023 is as follows:

	Lease liabilities <i>HK\$'000</i>
Within one year	2,747
More than one year, but not exceeding two years	3,015
More than two years, but not more than five years	9,457
	<hr/>
	15,219

PRINCIPAL RISKS AND UNCERTAINTIES

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

Foreign Currency Risks

The Group has a certain exposure to foreign currency risk as a number of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of respective Group entities such as HKD, USD, EUR and RMB. 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.

Financial risk

Financial risk factors include foreign currency risk, credit risk, liquidity risk and interest rate risk. Details of the aforesaid financial risk factors and the respective risk management measures are elaborated in the 2023 annual report to be published in due course in accordance with the requirements in the Listing Rules.

Operational risk

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

Market risk

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

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 31 December 2023, the Group did not have any pledge of assets.

CAPITAL COMMITMENT

As at 31 December 2023, the Group had capital commitments of approximately HK\$0.3 million (2022: HK\$0.3 million) and HK\$Nil (2022: HK\$2.4 million) relating to property, plant and equipment and capital contribution to an associate, respectively, which are contracted but not provided for.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

The Group values its employees and recognises the importance of a good relationship with them. The Group recruits its employees based on their work experience, education background and qualifications. To maintain and ensure the quality of its employees, the Group provide its personnel with formal and on-the-job training to enhance their technical skills as well as knowledge of the industry quality standards and work place safety standards. As at 31 December 2023, the Group had a total of 1,043 employees of which 1,026 were in the PRC and 17 were in Hong Kong. The remuneration to employees includes salaries and allowances and equity incentives such as share options. Employees are remunerated according to their qualifications, experiences, job nature, performance and with reference to market conditions.

The Group's total employee benefit expenses (including Directors' emoluments) for the years ended 31 December 2023 and 2022 were approximately HK\$123.1 million and HK\$128.3 million, respectively.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the year ended 31 December 2023.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

There was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have other plan for material investments or acquisition of material capital assets as at 31 December 2023.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period up to the date of this report.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Kwok Kwan Fai (郭君暉) (“Mr. Joe Kwok”), aged 50, is an executive Director and the Chairman of the Board. Mr. Joe Kwok joined the Group in April 1998 and has over 23 years of experience in trading, manufacturing and design of eyewear products. He is primarily responsible for formulating overall business development strategies, overall management and administration and making major business decisions of the Group.

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

Mr. Joe Kwok has been holding directorship in certain subsidiaries of the Company. Mr. Joe Kwok is a director of Conquer Holding Limited (a company which is interested in 55.19% shareholding interest of the Company as at the date of this annual report).

Mr. Joe Kwok is the son of Mr. Kwok and Mrs. Kwok, who are non-executive Directors of the Company, and is the brother of Mr. Ken Kwok, who is an executive Director and the chief executive officer of the Company.

Mr. Kwok Kwan Yu (郭君宇) (“Mr. Ken Kwok”), aged 46, is an executive director and the chief executive officer of the Company. Mr. Ken Kwok joined the Group in December 1999 and has over 21 years of experience in trading, manufacturing and design of eyewear products. He is primarily responsible for making major operation decisions for the Group and supervising business administration of the Group.

Mr. Ken Kwok completed his secondary education in Hong Kong in July 1995. Mr. Ken Kwok has been holding directorship in certain subsidiaries of the Company. Mr. Ken Kwok is a director of Conquer Holding Limited (a company which is interested in 55.19% shareholding interest of the Company as at the date of this annual report).

Mr. Ken Kwok is the son of Mr. Kwok and Mrs. Kwok, who are non-executive Directors of the Company, and is the brother of Mr. Joe Kwok, who is an executive Director and the Chairman of the Board.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Kwok Mau Kwan (郭茂群) (“**Mr. Kwok**”), aged 80, is a non-executive Director of the Company. Mr. Kwok co-founded the Group with an independent third party in April 1986. He has over 35 years of experience in trading, manufacturing and design of eye wear products and is currently the honorary chairman of Jiangxi Yingtan Optical Industry Association (江西鷹潭眼鏡行業協會) and a committee member of the First Chinese People’s Political Consultative Conference of Yujiang District, Yingtan (政協鷹潭市余江區第一屆委員會會員). He is primarily responsible for participating in formulating the corporate and business strategies of the Group. Mr. Kwok completed his secondary education in the PRC in June 1962.

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

Ms. Chan Yin Wah (陳燕華) (“**Mrs. Kwok**”), aged 73, is a non-executive Director of the Company. She joined the Group in August 1987 and has over 33 years of experience in trading, manufacturing and design of eye wear products. She is primarily responsible for participating in formulating the corporate and business strategies of the Group. Mrs. Kwok completed her secondary education in Hong Kong in July 1967.

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

Independent Non-executive Directors

Mr. Chan Hon Wah (陳漢華) (“**Mr. Chan**”), aged 71, was appointed as an independent non-executive Director of the Company on 22 June 2019. He is the chairman of the remuneration committee of the Company, and a member of the audit committee, nomination committee and risk management committee of the Company. Mr. Chan has more than 40 years of experience in the field of accounting, corporate finance and management. Mr. Chan obtained a Master’s degree in Business Administration (Investment and Finance) from The University of Hull in June 1997. He was admitted as a member of the Certified General Accountants Association of Canada in September 1992. He was admitted as a chartered professional accountant member of the Chartered Professional Accountants of British Columbia, Canada in June 2015.

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chu Kin Ming (朱健明) (“Mr. Chu”), aged 43, was appointed as an independent non-executive Director of the Company on 22 June 2019. He is the chairman of the audit committee of the Company, and a member of the remuneration committee, nomination committee and risk management committee of the Company. Mr. Chu is currently an independent non-executive director of Optima Automobile Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8418) since October 2019, an independent non-executive director of Century Energy International Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8132) since February 2020 and an independent non-executive director of Dimmi Life Holdings Limited (formerly known as Milestone Builder Holdings Limited), a company listed on Main Board of the Stock Exchange (stock code: 1667) since December 2020, and an independent non-executive director of Vision International Holdings Limited, a company listed on GEM Board of the Stock Exchange (stock code: 8107) since September 2023. Mr. Chu was an independent non-executive director of SK Target Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8427) from June 2017 to November 2023. Currently, Mr. Chu is the company secretary of Sino-life Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8296) since June 2019 and China Rare Earth Holdings Limited, a company listed on Main Board of the Stock Exchange (stock code: 769) since February 2024.

Mr. Chu has more than 18 years working experience in the accounting and company secretary field. Mr. Chu served as a chief financial officer and company secretary of companies listed on the Stock Exchange.

Mr. Chu was admitted as a member of the Hong Kong Institute of Certified Public Accountants in July 2008. He was admitted to graduateship of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (previously known as the Institute of Chartered Secretaries and Administrators). He is also a member of the Chartered Institute of Management Administrators.

Mr. Chu obtained a master’s degree in Executive Master of Business Administration in The Chinese University of Hong Kong in 2022 and a bachelor’s degree in accountancy from the Hong Kong Polytechnic University.

Mr. Hong Sze Lung (康仕龍) (“Mr. Hong”), aged 52, was appointed as an independent non-executive Director of the Company on 1 September 2020. Mr. Hong has over 25 years of working experience and extensive knowledge in the fields of auditing, corporate finance, corporate recovery, investments as well as corporate investor relations in Hong Kong and Mainland China.

Mr. Hong commenced his career in PricewaterhouseCoopers and worked in the firm for approximately 10 years in the field of auditing, corporate finance & recovery until he left the firm in November 2005 as a senior manager. For the period from March 2006 to October 2011, Mr. Hong then served at senior management level respectively in a private equity investment company (as Senior Vice President) as well as two companies listed on the Main Board of the Stock Exchange, being Soundwill Holdings Limited (stock code: 0878) and Silver Base Group Holdings Limited (stock code: 0886), both as Corporate Finance Director. For the period from September 2012 to December 2016, Mr. Hong worked in Wealth Glory Holdings Limited (stock code: 8269), a company listed on the GEM of the Stock Exchange, as Chief Operation Officer and subsequently promoted to Executive Director, Chief Executive Officer and Chairman. For the period from July 2018 to June 2020, Mr. Hong worked in Sincere Watch (Hong Kong) Limited (stock code: 0444), a company listed on the Main Board of the Stock Exchange, as Chief Financial Officer.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Hong, being appointed on 12 July 2023, is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited (stock code: 0444), a company listed on the Main Board of the Stock Exchange. Mr. Hong was an independent non-executive director of Ping An Securities Group (Holdings) Limited (formerly known as Madex International (Holdings) Limited), a company delisted from the Main Board of Stock Exchange (previous stock code: 0231) on 7 November 2022, for the period from May 2014 to November 2015, an independent non-executive director of Evershine Group Holdings Limited, a company delisted from the GEM Board of Stock Exchange (previous stock code: 8022) on 17 October 2022, for the period from January 2021 to March 2021, an independent non-executive director of Silver Base Group Holdings Limited, a company delisted from the Main Board of the Stock Exchange (previous stock code: 886) on 4 December 2023, for the period from March 2022 to June 2022, and an independent non-executive director of Huiyin Holdings Group Limited, a company delisted from the Main Board of the Stock Exchange (previous stock code: 1178) on 22 August 2022, for the period from March 2022 to August 2022.

Mr. Hong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and a chartered financial analyst of the CFA Institute. In 1995, Mr. Hong obtained a Bachelor of Arts (Hons) Degree in Accountancy from the Hong Kong Polytechnic University.

SENIOR MANAGEMENT AND COMPANY SECRETARY

Ms. Leong Kai Weng Subrina (“Ms. Leong”) (梁佳穎), joined the group in 2021, as company secretary and Chief Financial Officer of the Group. She has over 10 years of experience in the fields of financial reporting, corporate finance, company secretarial and auditing.

Ms. Leong is a member of Hong Kong Institute of Certified Public Accountants and an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute. Ms. Leong obtained her Bachelor’s degree in Business Administration in Professional Accountancy from The Chinese University of Hong Kong in 2009 and a Master’s degree in Corporate Governance from The Hong Kong Polytechnic University in 2017.

Prior to joining the Company, Ms. Leong served as financial controller or finance manager in various companies listed on Stock Exchange from 2013 to 2020 and worked at PricewaterhouseCoopers from 2009 to 2013. Ms. Leong is currently the company secretary of International Genius Company, a company listed on the Main Board of the Stock Exchange (stock code: 33).

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed in upholding high standards of corporate governance practices and business ethics in the firm belief that they are crucial to improving the efficiency and performance of the Group and to safeguarding the interests of the shareholders. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance. Set out below are the principles of corporate governance as adopted by the Company during the year ended 31 December 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. The Board is of the view that the Company has complied with all the applicable code provisions of the CG Code for the year ended 31 December 2023.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code during the year ended 31 December 2023.

BOARD OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

As at 31 December 2023 and up to the date of this report, there are two executive Directors, two non-executive Directors, and three independent non-executive Directors of the Company. The composition of the Board is as follows:

Executive Directors:

Mr. Kwok Kwan Fai (*Chairman*)

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

Non-Executive Directors:

Mr. Kwok Mau Kwan

Ms. Chan Yin Wah

Independent Non-Executive Directors:

Mr. Chan Hon Wah

Mr. Chu Kin Ming

Mr. Hong Sze Lung

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

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

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

Chairman and Chief Executive

The roles of the chairman and the chief executive officer of the Company have been separated as required by code provision C.2.1 of the CG Code. For the year ended 31 December 2023, Mr. Joe Kwok has served as the chairman of Company and Mr. Ken Kwok has served as the chief executive officer of the Company. Mr. Joe Kwok and Mr. Ken Kwok are brothers.

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

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

CORPORATE GOVERNANCE REPORT

Board Meetings and Directors' Attendance Records

During the year ended 31 December 2023, the Company convened one annual general meeting and four Board meetings. The attendance of the above meetings by each Director is as follows:

Name of directors	Attendance/ Number of Board Meetings	Attendance/ Number of Annual General Meeting
Executive Directors		
Mr. Kwok Kwan Fai (<i>Chairman</i>)	4/4	1/1
Mr. Kwok Kwan Yu	4/4	1/1
Non-executive Directors		
Mr. Kwok Mau Kwan	4/4	1/1
Ms. Chan Yin Wah	4/4	1/1
Independent non-executive Directors		
Mr. Chan Hon Wah	4/4	1/1
Mr. Chu Kin Ming	4/4	1/1
Mr. Hong Sze Lung	4/4	1/1

Note: Attendance of the Directors appointed or resigned during the year were made by reference to the number of such meetings held during their respective tenures.

Independent Non-executive Directors

During the year ended 31 December 2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

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

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

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

CORPORATE GOVERNANCE REPORT

Responsibilities of the Directors

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

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

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

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

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

Board Independence

To ensure independent views and input are available to the Board, the Board has developed and maintained the following measures and mechanisms, including but not limited to:

- (i) at least one-third of Board members are independent non-executive Directors;
- (ii) every independent non-executive Director is appointed for a specific term and subject to retirement by rotation at least once every three years;
- (iii) no independent non-executive Director has served the Company for more than nine years;
- (iv) no independent non-executive Director holds more than six listed company directorships to make sure that each of independent non-executive Directors has sufficient time to make contributions to the Board;
- (v) every independent non-executive Director has made an annual confirmation of his independence to the Company;
- (vi) the Nomination Committee will assess the independence of a candidate for independent non-executive Director before appointment;
- (vii) no equity-based remuneration with performance-related elements will be granted to independent non-executive Directors; and
- (viii) the Directors may seek professional advice in appropriate circumstances at the Company's expenses.

CORPORATE GOVERNANCE REPORT

The Board has reviewed the implementation and effectiveness of relevant measures mechanisms during the year ended 31 December 2023.

Continuous Professional Development of Directors

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

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

During the year ended 31 December 2023, all Directors had complied with the code provision C.1.4 of the CG Code through attending training courses/briefing/seminars/conferences or reading materials relevant to the duties of Directors.

	Attending training courses/briefing/seminars/conference in relation to regulatory updates or industry	Reading materials relevant to the duties of Directors
Executive Directors		
Mr. Kwok Kwan Fai	✓	✓
Mr. Kwok Kwan Yu	✓	✓
Non-executive Directors		
Mr. Kwok Mau Kwan	✓	✓
Ms. Chan Yin Wah	✓	✓
Independent non-executive Directors		
Mr. Chan Hon Wah	✓	✓
Mr. Chu Kin Ming	✓	✓
Mr. Hong Sze Lung	✓	✓

BOARD COMMITTEES

The Board has established four Board committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee, for overseeing particular aspects of the Company's affairs on 22 June 2019. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee are posted on the Company's website and the Stock Exchange's website and are available to the Shareholders upon request.

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

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

CORPORATE GOVERNANCE REPORT

Audit committee

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

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

The Audit Committee is also responsible for performing the functions set out in code provision A.2.1 of the CG Code. These include developing and reviewing the Company's policies and practice on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

During the year ended 31 December 2023, three Audit Committee meetings were held. It had reviewed and discussed the interim and annual financial statements, the interim results announcement and report, annual results announcement and report, the accounting principles and practices adopted by the Group and the effectiveness of the internal control of the Group and recommended the re-appointment of auditor to the Board.

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

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

The Company's annual results for the year ended 31 December 2023 have been reviewed by the Audit Committee.

Remuneration committee

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

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management, review the performance of our Directors and to review and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, one meeting of the Remuneration Committee were held. It had reviewed the Company's remuneration policy, made recommendations to the Board on the structure and the remuneration package for Directors and senior management, and assessed the performance of the executive Directors. The attendance records of the members of the Remuneration Committee are as follows:

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

The Remuneration Committee is tasked within its term of reference to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules. The remuneration policy and package of the Group's employees are periodically reviewed by the Remuneration Committee. The Remuneration Committee has reviewed the remuneration policy and package of the Group, including an assessment of individual performance, attractiveness of the rewards offered by the Company, talent retention and incentivization, the financial condition and performance of the Group. No share awards and share options were recommended to be awarded by the Remuneration Committee during the year ended 31 December 2023.

Pursuant to code provision E.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2023 is as follows:

Remuneration band (in HK\$)	Number of individual
Nil to 1,000,000	1

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

Nomination committee

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

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

CORPORATE GOVERNANCE REPORT

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

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

As at the date of this report, the Board comprises seven Directors, one of whom is female. As at 31 December 2023, the male to female ratio in the employees of the Group (including the senior management) was approximately 1.1:1. The Company considered the composition of the Board and the employees is appropriate and balanced taking into account the nature of the industry and is appropriate for the management and business development of the Company.

The Company has not set any measurable objectives, numerical targets and timelines for achieving diversity. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Board and the Nomination Committee will continue to monitor the structure of the Board and the employees, as well as the implementation of Board Diversity Policy, and assess whether any plans or measurable objectives should be set. The Board recognizes the importance of diversity and will ensure that any successor to the Board complies with the Board Diversity Policy.

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, one meeting of the Nomination Committee were held. It had reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors, made recommendations to the Board on the re-appointment of Directors and reviewed and made recommendations to the Board on the nomination policy. The attendance records of the members of the Nomination Committee are as follows:

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

Risk Management committee

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

Under the terms of reference of the Risk Management Committee, the primary duties of the Risk Management Committee are, among other things, to improve the risk management practices of the Company, and to assess the sanctions-related risks which the Group may be exposed to from time to time.

During the year ended 31 December 2023, two meetings of the Risk Management Committee was held. It had reviewed the internal control and risk management systems and assessed the sanction risk exposed to the Group. The attendance records of the members of the Risk Management Committee are as follows:

Name of directors	Attendance/ Number of Meetings
Mr. Hong Sze Lung (<i>Chairman</i>)	2/2
Mr. Chan Hon Wah	2/2
Mr. Chu Kin Ming	2/2

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2023, the Group has engaged an independent internal control consultant to conduct an annual review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers that the Group's risk management and internal control are adequate and effective. The Group does not have an internal audit function and will engage an external party to review risk management and internal control systems annually.

CORPORATE GOVERNANCE REPORT

The Company has in place a framework for the handling and disclosure of inside information in compliance with the Securities and Futures Ordinance and the Listing Rules. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the shareholders and stakeholders to assess the latest position of the Group. Under the framework, a reporting mechanism has been put in place for employees to report potential inside information to the Chairman or Company Secretary as soon as possible. Analysis and consultations with the Company's Directors and senior management will be made so as to identify whether any such information constitutes inside information and is required to be disclosed to the public.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2023.

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

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

DIVIDEND POLICY

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

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

CORPORATE GOVERNANCE REPORT

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

AUDITORS' REMUNERATION

For the year ended 31 December 2023, RSM Hong Kong was engaged as the Group's independent auditors. Apart from the provision of annual audit services, RSM Hong Kong provided the audit and non-audit services.

The remuneration paid/payable to RSM Hong Kong, the auditors, for the year ended 31 December 2023 is set out below:

Services	Fee paid/ payable HK\$'000
Audit services — annual audit services	840
Non-audit services — review on continuing connected transactions	10
Total	850

COMPANY SECRETARY

Ms. Leong Kai Weng Subrina (“**Ms. Leong**”) was appointed as the Company Secretary in September 2021 and serves as the secretary of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee. Ms. Leong was also Chief Financial Officer of the Group.

Ms. Leong attended sufficient professional training as required under the Listing Rules for the year ended 31 December 2023 to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

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

Putting Forward Proposals at General Meetings

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

CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: Workshops 1605–1606, 16/F, Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong
Email: customerservice@kelfred.com
Attention: Chairman of the Board and the Company Secretary

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has adopted a shareholder communication policy. According to the policy, the Company need to ensure effective and timely communication of information to the shareholders and potential investors and maintain various communication channels. The Company endeavours to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.kelfred.com.hk as a communication platform with Shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

The Company has reviewed the implementation and effectiveness of the shareholder communication policy. Considering that the multiple communication channels with Shareholders and potential investors maintained during the year, the Company considered that the policy remained effective and has been properly implemented.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2023, there is no change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year ended 31 December 2023 by operating segment is set out in note 7 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2023 is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2023 and the financial position of the Group as at 31 December 2023 are set forth in the consolidated financial statements on pages 55 to 57 of this annual report.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the years ended 31 December 2023 and 31 December 2022.

As at the date of this annual report, the Board was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

FIXED ASSETS

Details of the movements during the year ended 31 December 2023 in property, plant equipment and right-of-use assets are set out in notes 16 and 17 to the consolidated financial statements, respectively.

SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2023 are set out in note 27 to the consolidated financial statements.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2023, calculated in accordance with the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$76.6 million (2022: HK\$78.2 million).

TAX RELIEF AND EXEMPTION

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2024 to Wednesday, 29 May 2024, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting ("AGM") to be held on Wednesday, 29 May 2024. In order to be eligible to attend and vote at the AGM, all branch transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 22 May 2024.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities, and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company or the Prospectus, is set out on page 4 of the annual report.

DIRECTORS

The Directors during the year ended 31 December 2023 and up to the date of this report were:

Executive Directors:

Mr. Kwok Kwan Fai (*Chairman*)

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

Non-Executive Directors:

Mr. Kwok Mau Kwan

Ms. Chan Yin Wah

Independent Non-Executive Directors (The “INEDs”):

Mr. Chan Hon Wah

Mr. Chu Kin Ming

Mr. Hong Sze Lung

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

Retirement and re-election of Directors

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

REPORT OF THE DIRECTORS

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

Save as disclosed in this annual report and note 32 to the consolidated financial statements, no other transactions, arrangements and contracts of significance to which the Company's subsidiaries or its parent company was a party and in which a Director and an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Group's controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 11 to 14 of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

The change in the information of the Directors, which required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Name of Director	Detail of changes
Mr. Hong Sze Lung	Appointed as an independent non-executive director of Sincere Watch (Hong Kong) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 444) with effect from 12 July 2023.
Mr. Chu Kin Ming	Appointed as an independent non-executive director of Vision International Holdings Limited, a company listed on the GEM Board of the Stock Exchange (stock code: 8107) since 15 September 2023; Resigned as an independent non-executive director of SK Target Group Limited, a company listed on the GEM Board of the Stock Exchange (stock code: 8427) with effect from 15 November 2023; Resigned as the company secretary of OCI International Holdings Limited, a company listed on Main Board of the Stock Exchange (stock code: 329) with effect from 8 November 2023; Appointed as the company secretary of China Rare Earth Holdings Limited, a company listed on Main Board of the Stock Exchange (stock code: 769) since February 2024.

REPORT OF THE DIRECTORS

Save as disclosed above and in this annual report, there was no change to any information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the year ended 31 December 2023 and up to the date of this annual report.

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

As at 31 December 2023, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)) (“SFO”) which will be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix C3 to the Listing Rules, are set out as follows:

(a) Long position in Shares

Name of Director	Capacity/nature of interest	Number of Shares (Note 4)	Approximate percentage of shareholding interests of the Company
Mr. Kwok Kwan Fai (“Mr. Joe Kwok”)	Interest in controlled corporation (Note 1)	275,952,000 (L)	55.19%
Mr. Kwok Kwan Yu (“Mr. Ken Kwok”)	Interest in controlled corporation (Note 1)	275,952,000 (L)	55.19%
Ms. Chan Yin Wah (“Mrs. Kwok”)	Interest in controlled corporation; interest held jointly with another person (Note 2)	275,952,000 (L)	55.19%
Mr. Kwok Mau Kwan (“Mr. Kwok”)	Interest of spouse (Note 3)	275,952,000 (L)	55.19%

Notes:

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

REPORT OF THE DIRECTORS

2. On 3 January 2019, Mr. Kwok, Mrs. Kwok, Mr. Joe Kwok and Mr. Ken Kwok entered into the confirmatory deed to acknowledge and confirm, among other things, that they are parties acting in concert in respect of each of the members of the Group since their respective dates of incorporation and shall continue to do so after the date of the confirmatory deed. Details of the confirmatory deed are set out in the paragraph headed “History, Reorganisation and Group Structure — Parties acting in concert” in the Prospectus. Accordingly, Mrs. Kwok, Mr. Joe Kwok, Mr. Ken Kwok and Conquer are considered as a group of Controlling Shareholders and Mrs. Kwok is deemed to be interested in the Shares held by Conquer under the SFO.
3. Mr. Kwok is the spouse of Mrs. Kwok and is deemed to be interested in all the Shares interested by Mrs. Kwok for the purposes of the SFO.
4. The Letter “L” denotes the entity/person’s long interest in the Shares.
5. As at 31 December 2023, the total number of issued shares of the Company was 500,000,000.

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

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

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be maintained pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the share option scheme or otherwise disclosed in this annual report, at no time during the year ended 31 December 2023 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 was granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

REPORT OF THE DIRECTORS

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

As at 31 December 2023, so far as the Directors are aware, the persons (other than the Directors and chief executive of the Company) who will have or be deemed or taken to have interests and/or short positions in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or who were recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the Company's issued share capital will be as follows:

Name of Substantial Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of shareholding interests of the Company
Conquer <i>(Note 2)</i>	Beneficial owner	275,952,000 (L)	55.19%
Ms. Lee Man Yee Joanna ("Ms. Lee") <i>(Notes 2 and 3)</i>	Interest of spouse	275,952,000 (L)	55.19%
Ms. Siu Fong Ting Tammy ("Ms. Siu") <i>(Notes 2 and 4)</i>	Interest of spouse	275,952,000 (L)	55.19%

Notes:

- The Letter "L" denotes the entity/person's long interest in the Shares.
- Conquer, being the registered and beneficial owner of these shares, is owned as to 2% by Mrs. Kwok, 49% by Mr. Joe Kwok and 49% by Mr. Ken Kwok. As each of Mr. Joe Kwok and Mr. Ken Kwok hold 49% shareholding interest in Conquer, each of Mr. Joe Kwok and Mr. Ken Kwok is deemed to be interested in the Shares held by Conquer under the SFO. Each of Mr. Joe Kwok and Mr. Ken Kwok is a director of Conquer.
- Ms. Lee is the spouse of Mr. Joe Kwok and is deemed to be interested in all the Shares interested by Mr. Joe Kwok (via his 49% shareholding interest in Conquer) for the purposes of the SFO.
- Ms. Siu is the spouse of Mr. Ken Kwok and is deemed to be interested in all the Shares interested by Mr. Ken Kwok (via his 49% shareholding interest in Conquer) for the purposes of the SFO.
- As at 31 December 2023, the total number of issued shares of the Company was 50,000,000.

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

REPORT OF THE DIRECTORS

DIRECTORS' EMOLUMENT POLICY

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

SHARE OPTION SCHEME

On 22 June 2019, the then sole Shareholder of the Company approved and conditionally adopted a share option scheme (the "**Share Option Scheme**") to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group.

As at 31 December 2023 and to the date of this annual report, no option had been granted or to be granted, exercised, lapsed or cancelled under the Share Option Scheme and there is no outstanding options.

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

1. Purpose of the Share Option Scheme

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

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

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

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

2. Who may join and basis of eligibility

The Board may at its discretion grant options to:

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

REPORT OF THE DIRECTORS

- (ii) any non-executive director (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services of any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the Share Option Scheme, offer for the grant of an option (“Offer”) may be made to any company wholly owned by one or more Eligible Participants.

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

3. Subscription Price of Shares

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

4. Grant of options and acceptance of offers

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

REPORT OF THE DIRECTORS

5. Maximum number of Shares

- (i) Subject to sub-paragraphs (ii) to (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) unless approved by the Shareholders pursuant to sub-paragraph (iii) below. Options lapsed in accordance with the terms of the scheme(s) will not be counted for the purpose of calculating the Scheme Mandate Limit. As at 1 January 2023 and 31 December 2023, 50,000,000 Shares were available for grant under the Scheme Mandate Limit.
- (ii) Subject to sub-paragraphs (iii) and (iv) below, the Scheme Mandate Limit may be renewed by the Shareholders in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by the Shareholders. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of the Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to the Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.
- (iii) Subject to sub-paragraph (iv) below, the Directors may seek separate Shareholders’ approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by the Company before such approval is sought and the Company must issue a circular to the Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (iv) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by the Group if such grant will result in the said 30% limit being exceeded.

The number of Shares available for issue is 50,000,000 Shares under the Scheme Mandate Limit, which represent 10% of the Shares in issue as at the Listing Date and 10% of the Shares in issue as at the date of this annual report.

6. Maximum entitlement of each participant

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

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

7. Requirements on granting options to certain connected persons

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

Where any grant of options to a substantial Shareholder of the Company or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

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

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

REPORT OF THE DIRECTORS

8. Restrictions on the time of grant of options

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

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

9. Time of exercise of option

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

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

10. Performance targets

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

11. Ranking of Shares

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

12. Rights are personal to grantee

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

13. Rights on cessation of employment

In the event of death of the grantee (being an individual) before exercising the option in full, his/her personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his/her death and not already exercised) within a period of 12 months following his/her death or such longer period as the Directors may determine.

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

14. Effects of alterations to share capital

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

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

REPORT OF THE DIRECTORS

15. Rights on a general offer

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

16. Rights on winding-up

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

17. Rights on compromise or arrangement

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

18. Lapse of options

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

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph 13 above;

REPORT OF THE DIRECTORS

- (iii) subject to paragraph 16 above, the date of the commencement of the winding-up of the Company;
- (iv) the expiry of the period referred to in paragraph 17 above;
- (v) the date on which the grantee who is an Eligible Employee ceases to be an Eligible Employee by reason of summary dismissal or being dismissed for misconduct or other breach of the terms of his/her employment contract or other contract constituting him/her an Eligible Employee, or the date on which he/she begins to appear to be unable to pay or has no reasonable prospect of being able to pay his/her debts or has become insolvent or has made any arrangements or composition with his/her creditors generally or on which he/she has been convicted of any criminal offence involving his/her integrity or honesty, unless otherwise resolved to the contrary by the Directors;
- (vi) in respect of a grantee other than an Eligible Employee, the date on which the Directors shall at their absolute discretion determine that (i)(a) such grantee has committed any breach of any contract entered into between such grantee on one part and the Group or any Invested Entity on the other part; or (b) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his/her creditors generally; or (c) such grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of his/her relations with the Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in subparagraph (i)(a), (b) or (c) above, unless otherwise resolved to the contrary by the Directors;
- (vii) the expiry of the period referred to in paragraph 15 above; and
- (viii) the date on which the grantee commits a breach of paragraph 12 or any terms or conditions attached to the grant of the option or an event, in respect to a grantee, referred to in subparagraph (2) below occurs, unless otherwise resolved to the contrary by the Directors.

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

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

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

REPORT OF THE DIRECTORS

19. Cancellation of options granted but not yet exercised

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

20. Period of the Share Option Scheme

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

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

21. Alteration to the Share Option Scheme

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

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

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

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

REPORT OF THE DIRECTORS

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

22. Termination to the Share Option Scheme

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to contributing to the sustainability of the environment and the development of the society. Details of the Group's development, performance and operation in the environmental aspect will be set out in the Environmental, Social and Governance Report to be published at the same time as the publication of this annual report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

REPORT OF THE DIRECTORS

MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases

– the largest supplier	24.5%
– five largest suppliers in aggregate	38.6%

Sales

– the largest customer	26.0%
– five largest customers in aggregate	70.4%

Save as disclosed in this annual report, none of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions entered into by the Group during the year ended 31 December 2023 are disclosed in note 32(a) and 32(b) to the consolidated financial statements. Other than disclosed below, the related party transactions either (i) constituted fully exempted connected transactions/continuing connected transactions; or (ii) do not constitute connected transactions/continuing connected transactions under Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transaction

On 1 September 2023, the Company has entered into the master product sales agreement (the “**Master Product Sales Agreement**”) with DEM SRL, a company incorporated under the laws of the Italian Republic with limited liability (“**DEM**”), for a term commence from 1 September 2023 to 31 December 2025 pursuant to which the Group will sell the products to DEM. Pursuant to the Master Product Sales Agreement, the maximum transaction amount under the Master Product Sales Agreement for the four months ended 31 December 2023 is HK\$5,000,000 and for each of the years ending 31 December 2024 and 31 December 2025 are HK\$6,000,000 and HK\$7,500,000, respectively.

REPORT OF THE DIRECTORS

The Directors believe that the transactions contemplated under the Master Product Sales Agreement will allow the Group to leverage its production capacity for eyewear products, boost its turnover and diversify its sales channel internationally. It would also expand the sources of income of the Group and thereby benefit the operations of the Group.

The following table is a summary of the aggregate amount and the annual caps of the non-exempt continuing connected transaction of the Group pursuant to Chapter 14A of the Listing Rules for the four months ended 31 December 2023.

Connected Party	Agreement	Aggregate	Annual Cap
		value for the four months ended 31 December 2023	for the four months ended 31 December 2023
		HK\$000	HK\$000
DEM ^(Note)	Master Product Sales Agreement	2,817	5,000

Note:

The shares of DEM are owned as to 51% by Mr. Ken Kwok, 40% by Mr. Fedalto Alessandro and 9% by Mr. Testolini Roberto, respectively. Mr. Fedalto Alessandro and Mr. Testolini Roberto are both third parties independent of and not connected with the Company and its connected persons. Mr. Ken Kwok, being an executive director and the chief executive officer of the Company and through his 49% shareholding in Conquer and together with parties acting in concert with him, interested in an aggregate of 275,952,000 Shares, representing approximately 55.19% of the issued share capital of the Company. Hence, DEM is an associate of Mr. Ken Kwok and therefore a connected person of the Company.

The aforesaid continuing connected transaction has been reviewed by the Directors (including independent non-executive Directors) of the Company, they are of the view that the Master Product Sales Agreement and the transactions contemplated thereunder (including the annual caps) entered into in the ordinary and usual course of business of the Group, on normal commercial terms (which were arrived at after arm's length negotiations) and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's independent auditor was engaged to report on the continuing connected transactions under the Master Product Sales Agreement, which confirmed that, for the purpose of Rule 14A.56 of the Listing Rules, nothing has come to their attention that causes them to believe that the continuing connected transactions under the Master Product Sales Agreement: (i) have not been approved by the Board; (ii) have not in all material respects, been conducted in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the Master Product Sales Agreement; and (iv) have exceeded the annual caps set by the Company.

Save as disclosed in this annual report, during the year ended 31 December 2023, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares throughout the year ended 31 December 2023 and up to the date of this report.

PERMITTED INDEMNITY PROVISIONS

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

Pursuant to the Articles of Association, the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty.

COMPETING INTERESTS

As at 31 December 2023, Mr. Ken Kwok, an executive Director, is the controlling shareholder of a customer of the Group (the "**Customer**"). The Customer is principally engaged in assembling parts of optical frames and sunglasses with suppliers from Italy and sale of processed end products to its own customers. While the Group's suppliers are mainly from the PRC and has a largely differentiable customer base with the Customer, the Company considers that the operations of the Customer and the Group are complementary and there is no material impact on the operations or financial conditions of the Group. For the year ended 31 December 2023, the transaction amount between the Group and the Customer was approximately HK\$5,830,000.

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

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

Save as disclosed above, the controlling shareholders confirmed that they have complied with their undertaking under the Non-competition Undertaking for the year ended 31 December 2023.

REPORT OF THE DIRECTORS

The INEDs have reviewed and confirmed that the controlling shareholders have complied with all the undertakings under the Non-competition Undertaking for the year ended 31 December 2023.

EVENTS AFTER THE REPORTING PERIOD

Details of the signification events after the reporting period of the Group are set out in note 35 to the consolidated financial statements.

AUDITOR

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

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

Hong Kong, 26 March 2024

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF KELFRED HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kelfred Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 55 to 60, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, 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 Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key Audit Matter

Estimation of the net realisable value of inventories

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

As at 31 December 2023, the Group's inventories, net of allowance for inventories of HK\$9,240,000 amounted to HK\$74,764,000 which represented 28.3% of the Group's total assets.

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

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

How our audit addressed the Key Audit Matter

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

- Obtaining an understanding of the assessment process of allowance for inventories, evaluating the design and implementation of relevant internal controls, and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- Performing a retrospective review to evaluate the outcome of prior period assessment of allowance for inventories to assess the effectiveness of management's estimation process;
- Noting any slow moving and obsolete inventories during our attendance/observation of the physical inventory count at year end;
- Testing inventories to assess if they are stated at the lower of cost or net realisable value on a sample basis, by comparing the actual sales value, after deducting the costs of completion and sales if applicable, and where there were no subsequent sales of the respective inventories after the year end, we challenged management as to the realisable values of the inventories, corroborating explanations with the aging profile and historical margins of the respective inventories, as appropriate;
- Testing on a sample basis the inventory aging analysis of the Group at year end, and reviewing subsequent usage and sales of inventories after year end, taking into consideration the impact of changes in technology and customers' preference and our knowledge of the Group's business operations and the industry in which the Group operates; and
- Discussed with the management in respect of the adequacy of the allowance made by the management based on aging analysis and individual assessments.

Key Audit Matter

Impairment assessment on trade receivables

Refer to notes 4(k), 4(s) and 22 to the consolidated financial statements respectively.

As at 31 December 2023, the Group's trade receivables, net of allowance for doubtful debts of HK\$491,000, amounted to HK\$109,067,000, which represented 41.3% of the Group's total assets.

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

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

How our audit addressed the Key Audit Matter

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

- Obtaining an understanding of the assessment process of expected credit losses of trade receivables, evaluating the design and implementation of relevant internal control, and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- Performing a retrospective review to evaluate the outcome of prior period assessment of expected credit losses of trade receivables to assess the effectiveness of management's estimation process;
- Assessing whether trade receivables had been appropriately grouped by management based on their shared credit risk characteristics;
- Obtaining and examining the assessment report of expected credit losses of trade receivables, prepared by the external valuer engaged by the Group;
- Evaluating the independence, qualifications, expertise and objectivity of the external valuer;
- Testing the accuracy and completeness of the data used by the valuer to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data;
- Evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information, and assessing the reasonableness of economic indicator selection, economic scenarios and weightings application by comparing with industry data;
- Testing the accuracy of the aging of trade receivables on a sample basis to supporting documents; and
- Testing the calculation of expected credit loss provisions applying the provision rates to the aging categories of the trade receivables outstanding at the reporting date.

Key Audit Matter

Impairment assessment of property, plant and equipment and right-of-use assets

Refer to notes 5(c), 16 and 17 to the consolidated financial statements respectively.

The carrying amounts of the Group's property, plant and equipment and right-of-use assets as at 31 December 2023 amounted to HK\$34,650,000 and HK\$14,951,000, respectively, which in aggregate represented 18.8% of the Group's total assets. After excluding the one-off demolition compensation income, the Group was loss making for the year. There is a risk that the carrying amount of these assets are higher than their recoverable amounts.

Management carried out impairment assessments, with assistance from independent external professional valuer, which involved estimating the recoverable amounts of the assets. Management determined their recoverable amounts based on the value in use of the relevant assets, and considered no further impairment losses on these assets were necessary as at 31 December 2023.

We identified the impairment assessment on property, plant and equipment and right-of-use assets as a key audit matter due to the significance of the balances to the consolidated financial statements, combined with the estimation of recoverable amounts of the assets involved significant management judgement. The inherent risk in relation to the impairment assessment is also considered significant.

How our audit addressed the Key Audit Matter

Our procedure in relation to the management's assessment for impairment of property, plant and equipment and right-of-use assets included:

- Understanding and evaluating management's internal controls in respect of the assessment of recoverable amount of property, plant and equipment and right-of-use assets and assessing the degree of estimation uncertainty and level of other relevant risk factors;
- Understanding and evaluating management's identification of indicators of potential impairment;
- Evaluating the competence, capability and objectivity of an independent external professional valuer;
- Obtaining and reviewing the valuation report prepared by the external valuer engaged by the Company;
- Obtaining an understanding from external valuer about the valuation methodology, significant assumptions adopted and data used in the valuation;
- Evaluating the reasonableness of significant assumptions applied by comparing them to historical information and our understanding of latest marketing information and conditions;
- Testing the accuracy of source data used in the valuation;
- Engaging an auditor's expert to assess the appropriateness of valuation model and the weighted average cost of capital for value in use, and test mathematical and accuracy of the discounted cash flow forecast; and
- Evaluating sensitivity analysis on changes in significant assumptions to ascertain the extent of change in the significant assumptions either individually or collectively that once result on impairment are also consider the likelihood of such a change in the significant assumptions.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE 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 Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT



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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Yu Kwok Keung.

RSM Hong Kong

Certified Public Accountants

26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 HK\$'000	2022 HK\$'000
Revenue	7	393,284	465,430
Cost of sales		(336,305)	(389,413)
Gross profit		56,979	76,017
Other income	8	18,212	9,256
Other gains and losses	9	5,890	3,880
Reversal of impairment loss for trade receivables		110	433
Gain on partial disposal of subsidiaries		–	58
Gain on disposal of associates	18	– ⁽ⁱ⁾	–
Share of losses of associates	18	– ⁽ⁱ⁾	(3)
Selling and distribution expenses		(17,115)	(14,615)
Administrative and other operating expenses		(60,245)	(63,630)
Profit from operations		3,831	11,396
Finance costs, net	10	(1,653)	(715)
Profit before tax		2,178	10,681
Income tax expense	11	(790)	(1,498)
Profit for the year attributable to owner of the Company	12	1,388	9,183
Other comprehensive income:			
<i>Items that reclassified and may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(4,769)	(8,943)
Share of other comprehensive income of associates	18	– ⁽ⁱ⁾	– ⁽ⁱ⁾
Exchange differences reclassified to profit or loss on disposal of associates	18	– ⁽ⁱ⁾	–
Exchange differences reclassified to profit or loss on partial disposal of foreign operations		–	– ⁽ⁱ⁾
Other comprehensive income for the year, net of tax		(4,769)	(8,943)
Total comprehensive income for the year attributable to owner of the Company		(3,381)	240
Earnings per share			
– Basic and diluted	15	HK0.28 cents	HK1.84 cents

(i) Represent amount less than HK\$1,000.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment	16	34,650	24,495
Right-of-use assets	17	14,951	4,885
Interests in associates	18	–	114
Deposits paid for property, plant and equipment	20	1,228	556
Deferred tax assets	26	507	–
		51,336	30,050
Current assets			
Inventories	21	74,764	71,183
Trade receivables	22	109,067	95,772
Prepayments, deposits and other receivables	20	8,503	8,320
Current tax assets		–	168
Bank and cash balances	23	20,334	46,403
		212,668	221,846
Current liabilities			
Trade payables	24	44,175	39,983
Other payables and accruals	24	19,618	21,301
Contract liabilities	24	1,309	1,517
Lease liabilities	25	2,747	1,223
Current tax liabilities		294	317
		68,143	64,341
Net current assets		144,525	157,505
Total assets less current liabilities		195,861	187,555
Non-current liabilities			
Lease liabilities	25	12,472	785
Deferred tax liabilities	26	198	198
		12,670	983
NET ASSETS		183,191	186,572

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 HK\$'000	2022 HK\$'000
Capital and reserves			
Share capital	27	5,000	5,000
Reserves	29	178,191	181,572
TOTAL EQUITY		183,191	186,572

Approved by the Board of Directors on 26 March 2024 and are signed on its behalf by:

Mr. Kwok Kwan Fai
Executive Director

Mr. Kwok Kwan Yu
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company						
	Share capital HK\$'000	Statutory surplus reserve HK\$'000	Foreign currency translation reserve HK\$'000	Other reserve HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
	(note 29(b)(i))	(note 29(b)(ii))	(note 29(b)(iii))	(note 29(b)(iv))			
At 1 January 2022	5,000	3,143	6,192	70,658	88,511	12,828	186,332
Profit and total comprehensive income for the year	-	-	(8,943)	-	-	9,183	240
Transfer	-	1,118	-	-	-	(1,118)	-
At 31 December 2022 and 1 January 2023	5,000	4,261	(2,751)	70,658	88,511	20,893	186,572
Profit and total comprehensive income for the year	-	-	(4,769)	-	-	1,388	(3,381)
Deregistration of a subsidiary (note)	-	-	-	(120)	-	120	-
Transfer	-	558	-	-	-	(558)	-
At 31 December 2023	5,000	4,819	(7,520)	70,538	88,511	21,843	183,191

Note:

Central Designs (Hong Kong) Limited (“**Central Designs**”), a subsidiary of the Company incorporated in Hong Kong, which was dissolved by deregistration on 24 November 2023. As a result, the difference between the nominal value of share of Central Designs acquired pursuant to the group reorganisation over the nominal value of the share capital of Fame Investment issued in exchange was derecognised from other reserve upon deregistration.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 HK\$'000	2022 HK\$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		2,178	10,681
Adjustments for:			
Allowance for inventories, net		4,956	5,285
Reversal of impairment loss for trade receivables	6(b)	(110)	(433)
Gain on disposal of associates	18	— ⁽ⁱ⁾	—
Gain on partial disposal of subsidiaries		—	(58)
Share of losses of associates	18	— ⁽ⁱ⁾	3
Amounts due from former associates written off		64	—
Depreciation on property, plant and equipment	16	6,643	6,838
Depreciation on right-of-use assets	17	3,745	2,848
Net losses on disposal of property, plant and equipment	9	323	71
Finance income	10	(25)	(25)
Finance expenses	10	1,678	740
Unrealised foreign exchange gains, net		(2,791)	(4,041)
Operating profit before working capital changes		16,661	21,909
(Increase)/decrease in trade receivables		(13,218)	5,982
Increase in inventories		(10,306)	(1,159)
(Increase)/decrease in prepayments, deposits and other receivables		(250)	4,257
Increase/(decrease) in trade payables		5,194	(9,382)
(Decrease)/increase in other payables and accruals		(1,362)	30
Decrease in contract liabilities		(208)	(773)
Cash (used in)/generated from operations		(3,489)	20,864
Income taxes paid		(1,146)	(1,586)
Net cash (used in)/generated from operating activities		(4,635)	19,278
CASH FLOW FROM INVESTING ACTIVITIES			
Deposits paid		(1,235)	(561)
Purchases of property, plant and equipment	31(a)(i)	(15,688)	(4,688)
Proceeds from disposals of property, plant and equipment		233	72
Proceed from disposal of associates		— ⁽ⁱ⁾	—
Decrease in amounts due from former associates		50	—
Increase in amounts due from associates		—	(8)
Net cash outflow on partial disposal of subsidiaries		—	(51)
Interest received		25	25
Net cash used in investing activities		(16,615)	(5,211)

(i) Represent amount less than HK\$1,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	<i>Note</i>	2023 HK\$'000	2022 HK\$'000
CASH FLOW FROM FINANCING ACTIVITIES			
Finance expenses paid	31(b)	(1,678)	(734)
Principal elements of lease payments	31(c)	(2,569)	(2,913)
Net cash used in financing activities		(4,247)	(3,647)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(572)	(947)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(26,069)	9,473
CASH AND CASH EQUIVALENTS AT 1 JANUARY		46,403	36,930
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		20,334	46,403
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	23	20,334	46,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

Kelfred Holdings Limited (the “Company”) was incorporated in the Cayman Islands with limited liability. The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Room 1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

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

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

2. BASIS OF PREPARATION

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

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 these 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 following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

Except for Amendments to HKAS 12, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The Group has adopted Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" for the first time in the current year. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences — e.g. leases.

Prior to the adoption of Amendments to HKAS 12, the Group applied the initial recognition exemption under paragraphs 15 and 24 of HKAS 12 for leasing transactions that give rise to equal and offsetting temporary differences, and therefore no deferred tax has been recognised for temporary differences relating to right-of-use assets and lease liabilities at initial recognition, and also over the lease terms under paragraph 22(c) of HKAS 12.

The Group has applied the transitional provisions under paragraphs 98K and 98L of Amendments to HKAS 12 to leasing transactions that occur on or after the beginning of the earliest comparative period presented and also, at the beginning of the earliest comparative period presented by:

- (i) Recognising a deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and a deferred tax liability for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities; and
- (ii) Recognising the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Based on the management's assessment, there was immaterial impact on the consolidated statement of financial position as at 1 January 2022, 31 December 2022 and 31 December 2023, because the deferred tax assets and the deferred tax liabilities recognised as a result of the adoption of Amendments to HKAS 12 qualify for offset under paragraph 74 of HKAS 12. The change primarily impacts disclosures of components of deferred tax assets and liabilities in note 26, but does not impact the overall deferred tax balances presented on the consolidated statement of financial position as the related deferred tax balances qualify for offset under HKAS 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 — Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16 — Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKAS 7 and HKFRS 7 — Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 21 — Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

The directors of the Company anticipate that the application of all other amendments to HKFRSs will not have material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION

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

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

The material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Consolidation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

(b) Separate financial statements

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

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

(c) Investments in 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.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate'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 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 an associate'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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

(c) Investments in associates (Cont'd)

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 foreign currency translation 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.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses.

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

(d) Foreign currency translation (Cont'd)

(iii) Translation on consolidation

The results and financial position of all foreign operations (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

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

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

(e) Property, plant and equipment

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

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

(e) Property, plant and equipment (Cont'd)

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

Buildings	Over the term of lease
Leasehold improvements	5 years
Plant and machinery	2 to 5 years
Furniture and fixtures	5 years
Office equipment	2 to 5 years
Computer equipment	2 to 5 years
Motor vehicles	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.

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.

(f) 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.

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. 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. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

(f) Leases *(Cont'd)*

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease including term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the individual lessee uses that rate as a starting point to determine the incremental borrowing rate.

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.

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

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation are transferred to property, plant and equipment.

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

The lease liability is remeasured when there is a change in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

(g) 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.

(h) 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(s) 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.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the 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 fair value through profit or loss are recognised immediately in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

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

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

(j) Financial assets

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

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

(k) 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.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for credit losses.

(l) 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. Cash and cash equivalents are assessed for ECL.

(m) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

(m) Financial liabilities and equity instruments *(Cont'd)*

(i) 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.

(ii) 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.

(n) 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 and rebates.

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

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

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefit

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

(p) Government grants

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

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

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

(q) Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

(q) Taxation (Cont'd)

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised and a deferred tax liability for all taxable temporary differences.

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, or to realise the asset and settle the liability simultaneously.

(r) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss 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 cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

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

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

(s) Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (*Cont'd*)

(s) Impairment of financial assets (*Cont'd*)

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

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month 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; or
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Cont'd)

(s) Impairment of financial assets (Cont'd)

Significant increase in credit risk (Cont'd)

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

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

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

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there are 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 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

(s) Impairment of financial assets *(Cont'd)*

Credit-impaired financial assets

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

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

Write-off policy

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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Cont'd)*

(s) Impairment of financial assets *(Cont'd)*

Measurement and recognition of ECL (Cont'd)

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.

(t) 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. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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.

(u) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

In applying the Group's accounting policies, which are described in note 4, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

Critical judgements in applying accounting policies

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

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

The Group has entered into receivable purchase arrangements with banks on its trade receivables. As at 31 December 2023, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with certain trade receivables factored to the banks under the arrangements. Accordingly, the relevant trade receivables with an aggregate carrying amount of HK\$54,276,000 (2022: HK\$108,984,000) is fully derecognised. Further details are given in note 22 to the consolidated financial statements.

(b) *Determining the lease term*

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

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 17 to the consolidated financial statements for further information.

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

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.

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

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise 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 belong. Changing the assumptions and estimates, including the discount rates or the growth rate or the gross profit margin in the cash flow projections, could materially affect the recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

Key sources of estimation uncertainty (Cont'd)

(c) **Impairment of property, plant and equipment and right-of-use assets (Cont'd)**

The carrying amounts of property, plant and equipment and right-of-use assets as at 31 December 2023 were HK\$34,650,000 (2022: HK\$24,495,000) and HK\$14,951,000 (2022: HK\$4,885,000) respectively.

(d) **Impairment of trade receivables**

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

As at 31 December 2023, the carrying amount of trade receivables was HK\$109,067,000 (net of allowance for doubtful debts of HK\$491,000) (2022: HK\$95,772,000 (net of allowance for doubtful debts of HK\$601,000)).

(e) **Write-down of inventories**

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

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

As at 31 December 2023, the carrying amount of inventories was HK\$74,764,000 (net of allowance for inventories of HK\$9,240,000) (2022: HK\$71,183,000 (net of allowance for inventories of HK\$4,880,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

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

	Exposure to foreign currencies					Total HK\$'000
	HKD HK\$'000	RMB HK\$'000	USD HK\$'000	EUR HK\$'000	Others HK\$'000	
At 31 December 2023						
Financial assets	6,018	29,347	96,621	2,963	–	134,949
Financial liabilities	4,197	70,783	2,997	1,012	23	79,012
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At 31 December 2022						
Financial assets	5,841	31,335	105,363	3,117	–	145,656
Financial liabilities	6,370	50,680	4,769	1,423	50	63,292
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Foreign currency risk (Cont'd)

Sensitivity analysis

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

	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax HK\$'000	Increase/ (decrease) in retained earnings HK\$'000
At 31 December 2023			
RMB	3%	(1,038)	(1,038)
RMB	(3%)	1,038	1,038
USD	1%	782	782
USD	(1%)	(782)	(782)
EUR	4%	65	65
EUR	(4%)	(65)	(65)
At 31 December 2022			
RMB	8%	(1,179)	(1,179)
RMB	(8%)	1,179	1,179
USD	1%	822	822
USD	(1%)	(822)	(822)
EUR	6%	85	85
EUR	(6%)	(85)	(85)

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

(b) Credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Credit risk (Cont'd)

(i) Credit risk of trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group's largest customer shared nearly 14.1% (2022: 8.8%) of the trade receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to the non-recovery of the receivables and there is no recent history of default for the Group's largest customer.

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

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

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

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

As at 31 December 2023

	Expected credit loss rate %	Gross carrying amount HK\$'000	Expected credit losses HK\$'000	Net carrying amount HK\$'000
Current (not past due)	0.21	89,977	(187)	89,790
1-60 days past due	0.22	14,301	(31)	14,270
61-120 days past due	1.52	1,845	(28)	1,817
121-180 days past due	0.81	619	(5)	614
Over 180 days past due	8.52	2,816	(240)	2,576
		109,558	(491)	109,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Credit risk (Cont'd)

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

As at 31 December 2022

	Expected credit loss rate %	Gross carrying amount HK\$'000	Expected credit losses HK\$'000	Net carrying amount HK\$'000
Current (not past due)	0.58	79,635	(461)	79,174
1-60 days past due	0.63	12,414	(78)	12,336
61-120 days past due	1.06	1,223	(13)	1,210
121-180 days past due	1.69	652	(11)	641
Over 180 days past due	1.55	2,449	(38)	2,411
		96,373	(601)	95,772

Expected loss rates are based on actual loss experience over the past 8 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance for trade receivables during the year is as follows:

	2023 HK\$'000	2022 HK\$'000
At 1 January	601	1,034
Reversal of impairment loss recognised for the year	(110)	(433)
At 31 December	491	601

(ii) Credit risk of other receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Credit risk (Cont'd)

(iii) Credit risk of cash and bank balances

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

(c) Liquidity risk

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

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

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

	Maturity Analysis – undiscounted cash flows				Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
	Less than 1 year or on demand HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000		
At 31 December 2023						
Trade payables	44,175	–	–	–	44,175	44,175
Other payables and accruals	19,618	–	–	–	19,618	19,618
Lease liabilities	3,236	3,404	9,844	–	16,484	15,219
At 31 December 2022						
Trade payables	39,983	–	–	–	39,983	39,983
Other payables and accruals	21,301	–	–	–	21,301	21,301
Lease liabilities	1,281	414	400	–	2,095	2,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank deposits with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk. The directors consider there is no expected significant exposure to interest rate risk and hence, no sensitivity analysis is presented.

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

	2023 HK\$'000	2022 HK\$'000
Financial assets:		
Financial assets at amortised cost	134,949	145,656
Financial liabilities:		
Financial liabilities at amortised cost	63,793	61,284
Lease liabilities	15,219	2,008

(f) Fair values

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

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from sales of eyewear products recognised at a point in time during the years ended 31 December 2022 and 2023.

Segment information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. REVENUE AND SEGMENT INFORMATION (Cont'd)

Geographical information

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

	2023 HK\$'000	2022 HK\$'000
Revenue		
Italy	138,222	158,383
United Kingdom	103,622	92,048
Hong Kong	81,051	88,354
Netherlands	21,213	60,941
United States	17,144	23,173
France	8,008	8,328
Japan	7,444	11,411
Australia	7,162	7,129
Others	9,418	15,663
	393,284	465,430

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

	2023 HK\$'000	2022 HK\$'000
Hong Kong	3,258	4,523
The People's Republic of China ("PRC")	46,343	24,857
	49,601	29,380

Information about major customers

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

	2023 HK\$'000	2022 HK\$'000
Customer a	102,432	102,153
Customer b	50,763	72,179
Customer c	45,541	61,978
Customer d	41,700	N/A ¹
Customer e	N/A ¹	73,398

¹ The corresponding revenue did not contribute over 10% of total revenue to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8. OTHER INCOME

	2023 HK\$'000	2022 HK\$'000
Income from sales of scrap and rework services	535	328
Material costs charged to customers	1,120	3,058
Government grants [#]	3,230	2,538
Product services fee income	1,163	1,163
Sample and mould income	634	1,862
Demolition compensation income [^]	10,932	–
Others	598	307
	18,212	9,256

[#] Government grants mainly relate to various subsidies supported from the government in the PRC.

[^] It represents an one-off financial compensation received by Huaqing Glasses (Shenzhen) Company Limited (“Shenzhen Huaqing”) whose leased factory premises are being demolished.

9. OTHER GAINS AND LOSSES

	2023 HK\$'000	2022 HK\$'000
Net foreign exchange gains	6,213	3,951
Net losses on disposal of property, plant and equipment	(323)	(71)
	5,890	3,880

10. FINANCE COSTS, NET

	2023 HK\$'000	2022 HK\$'000
Finance income:		
Bank interest income	25	25
Finance expenses:		
Interest on lease liabilities	(450)	(165)
Interest on factoring of trade receivables	(1,228)	(569)
Others	–	(6)
	(1,678)	(740)
	(1,653)	(715)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. INCOME TAX EXPENSE

Income tax expense have been recognised in profit or loss as following:

	2023 HK\$'000	2022 HK\$'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	37	–
– Over provision in prior years	–	(36)
	37	(36)
PRC Enterprise Income Tax (“PRC EIT”)		
– Provision for the year	1,399	411
– Over/(under) provision in current year	28	(81)
– (Over)/under provision in prior years	(165)	1,204
	1,262	1,534
Deferred tax (<i>note 26</i>)	(509)	–
	790	1,498

Under the two-tiered Profits Tax rates 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 rates regime will continue to be taxed at a rate of 16.5%.

Pursuant to the PRC EIT Law and the respective regulations, the subsidiaries which operate in the Mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group’s PRC subsidiaries.

Yingtan Euro-Asia Enterprise Limited (“Yingtan Euro-Asia”) was qualified as a Small and Low-profit Enterprise for the years ended 31 December 2022 and 2023 and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2023] No. 6, Yingtan Euro-Asia was also entitled to a further deduction of 25% of the tax income for the years ended 31 December 2022 and 2023.

Jiangxi Huaqing Glasses Co., Limited (“Jiangxi Huaqing”) was qualified as a High and New Technology Enterprise and their research and development activities are entitled to claim 200% (2022: 200%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the years ended 31 December 2022 and 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. INCOME TAX EXPENSE (Cont'd)

Shenzhen Huaqing was qualified as an Advanced Technology Service Enterprise and was subject to income tax at a preferential tax rate of 15% for the years ended 31 December 2022 and 2023. Besides, Shenzhen Huaqing was also qualified as a High and New Technology Enterprise and their research and development activities are entitled to claim 200% (2022: 200%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the years ended 31 December 2022 and 2023.

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

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

	2023 HK\$'000	2022 HK\$'000
Profit before tax	2,178	10,681
Tax at Hong Kong Profits Tax rates of 16.5% (2022: 16.5%)	359	1,762
Tax effect of income that is not taxable	(56)	(360)
Tax effect of expenses that are not deductible	614	535
Tax effect of tax incentives for research and development expenses	(1,662)	(1,748)
Tax effect of temporary differences not recognised	457	413
Tax effect of utilisation of tax losses not previously recognised	(103)	(916)
Tax effect of tax losses not recognised	896	585
Tax concession	(26)	–
Tax effect of two-tiered Profits Tax rates regime	(37)	–
Over/(under) provision in current year	28	(81)
(Over)/under provision in prior years	(165)	1,168
Effect of different tax rates of subsidiaries	485	140
Income tax expense	790	1,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

12. PROFIT FOR THE YEAR

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

	2023 HK\$'000	2022 HK\$'000
Auditor's remuneration		
– Audit services	840	1,000
– Non-audit services	10	–
Cost of inventories sold (*)	331,349	384,128
Allowance for inventories, net (included in cost of sales)	4,956	5,285
Reversal of impairment loss for trade receivables	(110)	(433)
Amounts due from former associates written off	64	–
Depreciation on right-of-use assets	3,745	2,848
Depreciation on property, plant and equipment	6,643	6,838
Gain on disposal of associates	– ⁽ⁱ⁾	–
Gain on partial disposal of subsidiaries	–	(58)
Net foreign exchange gains	(6,213)	(3,951)
Net losses on disposal of property, plant and equipment	323	71
Short-term lease charges in respect of:		
– Office and warehouse premises	517	505
– Factory premises	132	–
– Staff quarter	131	–
	780	505
Staff costs (note 13)	123,118	128,282

(*) Cost of inventories sold includes HK\$85,358,000 and HK\$83,672,000 of staff costs and depreciation which are also included in the respective total amounts disclosed above for each of these types of expenses for the years ended 31 December 2022 and 2023 respectively.

(i) Represent amount less than HK\$1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13. EMPLOYEE BENEFIT EXPENSES INCLUDING DIRECTORS' EMOLUMENTS

	2023 HK\$'000	2022 HK\$'000
Salaries and allowances	105,323	107,935
Discretionary bonus	1,698	4,293
Retirement benefit scheme contributions	13,185	12,719
Other employee benefit expenses	2,912	3,335
	123,118	128,282

(a) Retirement benefit schemes

The Group contributes to defined contribution retirement plans which are available for eligible employees in the PRC and Hong Kong.

Pursuant to the relevant laws and regulations in the People's Republic of China, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "PRC Retirement Schemes"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for employees employed under the jurisdiction of Hong Kong Employment Ordinance (Chapter 57 of the laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000.

During the years ended 31 December 2022 and 2023, the Group had no forfeited contributions under the PRC Retirement Scheme and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2022 and 2023 under the PRC Retirement Scheme and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(b) Five highest paid individuals

The five highest paid individuals in the Group during for the year ended 31 December 2023 included two (2022: two) director(s) whose emoluments are reflected in the analysis presented in note 14. The emoluments of the remaining three (2022: three) individual(s) are set out below:

	2023 HK\$'000	2022 HK\$'000
Salaries and allowances	2,461	2,262
Discretionary bonus	90	–
Retirement benefit scheme contributions	54	54
	2,605	2,316

The emoluments fell within the following band:

	Number of individuals	
	2023	2022
Nil to HK\$1,000,000	3	3

During for the years ended 31 December 2023 and 2022, no emoluments were paid or payable by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

	Fees HK\$'000	Salaries and allowances HK\$'000	Discretionary bonus HK\$'000	Benefits in kind HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Year ended 31 December 2023						
Executive directors:						
Mr. Kwok Kwan Fai (<i>Chairman</i>)	–	3,000	500	–	18	3,518
Mr. Kwok Kwan Yu	–	3,000	500	–	18	3,518
	–	6,000	1,000	–	36	7,036
Non-executive directors:						
Ms. Chan Yin Wah	–	432	36	56	–	524
Mr. Kwok Mau Kwan	–	432	36	80	–	548
	–	864	72	136	–	1,072
Independent non-executive directors:						
Mr. Chan Hon Wah	180	–	–	–	–	180
Mr. Chu Kin Ming	180	–	–	–	–	180
Mr. Hong Sze Lung	180	–	–	–	–	180
	540	–	–	–	–	540
	540	6,864	1,072	136	36	8,648
Year ended 31 December 2022						
Executive directors:						
Mr. Kwok Kwan Fai (<i>Chairman</i>)	–	2,760	1,610	–	18	4,388
Mr. Kwok Kwan Yu	–	2,760	1,610	–	18	4,388
Mr. Zuo Zhengsan (<i>note i</i>)	–	113	–	–	–	113
	–	5,633	3,220	–	36	8,889
Non-executive directors:						
Ms. Chan Yin Wah	–	432	36	54	–	522
Mr. Kwok Mau Kwan	–	432	36	79	–	547
Mr. Zhang Li (<i>note ii</i>)	–	90	–	–	–	90
	–	954	72	133	–	1,159
Independent non-executive directors:						
Mr. Chan Hon Wah	180	–	–	–	–	180
Mr. Chu Kin Ming	180	–	–	–	–	180
Mr. Hong Sze Lung	180	–	–	–	–	180
	540	–	–	–	–	540
	540	6,587	3,292	133	36	10,588

Note:

- (i) Mr. Zuo Zhengsan was appointed and resigned as an executive director of the Company on 16 June 2021 and 9 December 2022 respectively.
- (ii) Mr. Zhang Li was appointed and resigned as a non-executive director of the Company on 16 June 2021 and 19 September 2022 respectively.
- (iii) During the years ended 31 December 2023 and 2022, no emoluments were paid or payable by the Group to any the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

There were no loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors as at the end of the year or at any time during the years ended 31 December 2023 and 2022.

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

Save for disclosed in note 32, there were no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2023 and 2022.

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

During the year ended 31 December 2023, no consideration was provided to or receivable by third parties for making available director's services (2022: Nil).

15. EARNINGS PER SHARE

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

	2023 HK\$'000	2022 HK\$'000
Profit		
Profit attributable to owners of the Company	1,388	9,183
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of calculation basis earnings per share	500,000	500,000

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary share in issue during the years ended 31 December 2023 and 2022.

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For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost								
At 1 January 2022	12,764	16,630	48,048	1,626	2,901	306	4,368	86,643
Additions	–	797	4,053	12	570	39	–	5,471
Disposals/write-off	–	–	(1,344)	(15)	(7)	–	–	(1,366)
Exchange differences	(1,005)	(1,142)	(3,800)	(157)	(228)	–	(129)	(6,461)
At 31 December 2022 and 1 January 2023	11,759	16,285	46,957	1,466	3,236	345	4,239	84,287
Additions	–	7,419	5,149	1,859	223	–	1,482	16,132
Transfer from right-of-use assets (note 17)	–	–	–	–	–	–	3,405	3,405
Disposals/write-off	–	(3,766)	(3,342)	(352)	(70)	–	(1,741)	(9,271)
Exchange differences	(333)	(411)	(1,340)	(49)	(84)	(3)	(38)	(2,258)
At 31 December 2023	11,426	19,527	47,424	2,924	3,305	342	7,347	92,295
Accumulated depreciation and impairment								
At 1 January 2022	1,647	13,882	35,558	1,231	2,508	189	3,614	58,629
Charge for the year	303	1,243	4,458	206	381	47	200	6,838
Disposals/write-off	–	–	(1,201)	(15)	(7)	–	–	(1,223)
Exchange differences	(138)	(1,039)	(2,895)	(95)	(199)	–	(86)	(4,452)
At 31 December 2022 and 1 January 2023	1,812	14,086	35,920	1,327	2,683	236	3,728	59,792
Charge for the year	288	1,333	3,899	246	321	29	527	6,643
Transfer from right-of-use assets (note 17)	–	–	–	–	–	–	1,479	1,479
Disposals/write-off	–	(3,766)	(3,133)	(337)	(67)	–	(1,412)	(8,715)
Exchange differences	(54)	(339)	(1,020)	(36)	(73)	(3)	(29)	(1,554)
At 31 December 2023	2,046	11,314	35,666	1,200	2,864	262	4,293	57,645
Net book value								
At 31 December 2023	9,380	8,213	11,758	1,724	441	80	3,054	34,650
At 31 December 2022	9,947	2,199	11,037	139	553	109	511	24,495

Subsequent to the reporting period, on 16 January 2024, the Group obtained a new bank loan of RMB9,400,000 which is secured by certain of the Group's buildings situated in the PRC with an aggregate carrying value of HK\$9,380,000 as at 31 December 2023 (note 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. RIGHT-OF-USE ASSETS

	Leasehold land <i>HK\$'000</i>	Leased properties <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2022	2,086	2,010	2,886	6,982
Additions	–	1,020	–	1,020
Depreciation	(57)	(2,144)	(647)	(2,848)
Exchange differences	(162)	(107)	–	(269)
At 31 December 2022 and 1 January 2023	1,867	779	2,239	4,885
Additions	–	15,882	–	15,882
Transfer to property, plant and equipment (note 16)	–	–	(1,926)	(1,926)
Depreciation	(54)	(3,378)	(313)	(3,745)
Exchange differences	(53)	(92)	–	(145)
At 31 December 2023	1,760	13,191	–	14,951

Lease liabilities of HK\$15,219,000 (2022: HK\$2,008,000) are recognised with related right-of-use assets of HK\$13,191,000 as at 31 December 2023 (2022: HK\$3,018,000). 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.

	2023 HK\$'000	2022 HK\$'000
Depreciation on right-of-use assets	3,745	2,848
Interest expense on lease liabilities (included in finance costs)	450	165
Expenses relating to short-term lease (included in administrative expenses)	593	505
Expenses relating to short-term lease (included in cost of sales)	187	–

Details of total cash outflow for leases is set out in note 31(c).

Subsequent to the reporting period, on 16 January 2024, the Group obtained a new bank loan of RMB9,400,000 which is secured by certain of the Group's leasehold land situated in the PRC with an aggregate carrying value of HK\$1,760,000 as at 31 December 2023 (note 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18. INTERESTS IN ASSOCIATES

	2023 HK\$'000	2022 HK\$'000
Unlisted investments:		
Investment cost	_(i)	_(i)
Amounts due from associates	–	117
Share of losses	_(i)	(3)
Share of other comprehensive income	_(i)	_(i)
	–	114

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

Details of the Group's principal associates at 31 December 2023 are as follows:

Name	Place of incorporation	Registered capital	Percentage of ownership interest/voting power/ profit sharing		Principal activities
			2023	2022	
Tokyo Universe Technology Limited ("Tokyo Universe")	Hong Kong	–	–	30%	Dormant

The following table shows, in aggregate, the Group's share of the amounts of the individually immaterial associate of Tokyo Universe that are accounted for using the equity method.

	2023 HK\$'000	2022 HK\$'000
At 31 December:		
Carrying amounts of interests	–	–
Year ended 31 December:		
Loss and other comprehensive income for the year	_(i)	(3)

In the prior year, the Group held a 30% interest in Tokyo Universe and its subsidiaries and accounted for the interest in associates. On 27 June 2023, the Group disposed of entire interest in Tokyo Universe to a third party at a cash consideration of HK\$300. This transaction has resulted in the recognition of a gain of HK\$300 in profit or loss.

(i) Represented amount less than HK\$1,000.

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For the year ended 31 December 2023

19. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2023 are as follows:

Name of subsidiary	Principal country of operation and place of incorporation, kind of legal entity	Registered/ issued share capital	Effective interests attributable to the Group		Principal activities
			2023	2022	
Directly held by the Company					
Fame Investment Limited ("Fame Investment")	BVI, limited liability company	USD50,000	100%	100%	Investment holding
Indirectly held by the Company					
Kelfred Optical Limited ("Kelfred Optical")	Hong Kong, limited liability company	HK\$25,095,000	100%	100%	Investment holding and trading and design of eyewear products
Shenzhen Huaqing 華清眼鏡(深圳)有限公司	PRC, limited liability company	HK\$58,560,000	100%	100%	Manufacturing of eyewear products
Yingtan Euro-Asia 鷹潭歐亞實業有限公司	PRC, limited liability company	USD2,000,000	100%	100%	Properties holding
Jiangxi Huaqing 江西華清眼鏡有限公司	PRC, limited liability company	USD10,000,000	100%	100%	Manufacturing of eyewear products

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

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For the year ended 31 December 2023

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Prepayments		
Administrative and operating expenses	802	1,059
Goods purchased	1,928	1,008
	2,730	2,067
Deposits		
Deposits paid for property, plant and equipment	1,228	556
Rental deposits	1,067	450
Utility deposits	39	39
	2,334	1,045
Other receivables		
Advances to staff	19	6
Rebates from suppliers	1,241	1,130
Export and value-added taxes receivables	2,740	3,865
Others	667	763
	4,667	5,764
	9,731	8,876
Analyses of:		
Non-current portion	1,228	556
Current portion	8,503	8,320
	9,731	8,876

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For the year ended 31 December 2023

21. INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials	10,373	12,842
Work in progress	36,080	32,800
Finished goods	15,278	18,464
Goods-in-transit	13,033	7,077
	74,764	71,183

22. TRADE RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade receivables	109,558	96,373
Less: Impairment loss	(491)	(601)
	109,067	95,772

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

The Group has entered into receivable purchase arrangements with banks for the factoring of trade receivables with certain designated customers. As at 31 December 2023, trade receivables factored to the banks aggregated to HK\$54,276,000 (2022: HK\$108,984,000) and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to the banks.

The aging analysis of trade receivables, based on the date of relevant invoice (delivery date), and net of impairment loss, is as follows:

	2023 HK\$'000	2022 HK\$'000
Up to 60 days	68,312	60,729
61 to 120 days	31,752	30,682
121 to 180 days	5,340	1,547
Over 180 days	3,663	2,814
	109,067	95,772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. TRADE RECEIVABLES (Cont'd)

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

	2023 HK\$'000	2022 HK\$'000
HKD	811	424
EUR	2,168	3,106
RMB	21,334	20,491
USD	84,754	71,751
	109,067	95,772

23. BANK AND CASH BALANCES

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

	2023 HK\$'000	2022 HK\$'000
HKD	4,898	5,146
RMB	2,851	7,639
USD	11,792	33,606
EUR	793	12
	20,334	46,403

As at 31 December 2023, the bank and cash balances of the Group denominated in RMB amounted to HK\$2,660,000 (2022: HK\$4,058,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

24. TRADE AND OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Trade payables	44,175	39,983
Other payables and accruals		
Accrued staff costs	9,577	9,184
Accrued administrative and operating expenses	2,620	3,411
Purchases of property, plant and equipment	2,456	761
Accrued sales rebate to customers	3,921	6,310
Accrued various tax expenses	662	1,360
Others	382	275
	19,618	21,301
Contract liabilities	1,309	1,517
	65,102	62,801

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

	2023 HK\$'000	2022 HK\$'000
Up to 60 days	39,485	33,862
61 to 90 days	3,007	4,022
91 to 180 days	1,352	1,864
Over 180 days	331	235
	44,175	39,983

The credit period ranges from 30 to 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

Contract liabilities represent receipt in advance from customers and the significant changes in the contract liabilities balance during the reporting period are as follows:

	2023 HK\$'000	2022 HK\$'000
Balance at 1 January	1,517	2,290
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	(1,090)	(2,053)
Increase in contract liabilities as a result of billing in advance of sales of goods	882	1,280
Balance at 31 December	1,309	1,517

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

	2023 HK\$'000	2022 HK\$'000
HKD	4,152	4,486
RMB	55,807	51,044
USD	4,108	5,798
EUR	1,012	1,423
Others	23	50
	65,102	62,801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

25. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Within one year	3,236	1,281	2,747	1,223
More than one year, but not exceeding two years	3,404	414	3,015	393
More than two years, but not more than five years	9,844	400	9,457	392
	16,484	2,095	15,219	2,008
Less: Future finance charges	(1,265)	(87)	N/A	N/A
Present value of lease obligations	15,219	2,008	15,219	2,008
Less: Amount due for settlement within 12 months (shown under current liabilities)			(2,747)	(1,223)
Amount due for settlement after 12 months			12,472	785

The weighted average incremental borrowing rate applied to lease liabilities was 2.64% (2022: 3.25%) per annum.

The carrying amount of the Group's lease liabilities is denominated in the following currencies:

	2023 HK\$'000	2022 HK\$'000
HKD	45	1,884
RMB	15,174	124
	15,219	2,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. DEFERRED TAX

The following are the deferred tax assets and liabilities recognised by the Group:

	Property, plant and equipment <i>HK\$'000</i>	Right-of-use assets <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2022 and 31 December 2022	(198)	–	–	(198)
Adjustment on Amendments to HKAS 12 (<i>note 3(a)</i>)	–	(31)	31	–
At 31 December 2022 and 1 January 2023 (Restated)	(198)	(31)	31	(198)
(Charge)/credit to profit or loss for the year (<i>note 11</i>)	–	(3,278)	3,787	509
Exchange differences	–	22	(24)	(2)
At 31 December 2023	(198)	(3,287)	3,794	309

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

	2023 HK\$'000	2022 HK\$'000
Deferred tax liabilities	(198)	(198)
Deferred tax assets	507	–
	309	(198)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26. DEFERRED TAX (Cont'd)

As at 31 December 2022 and 2023, the Group has unutilised tax losses of HK\$28,303,000 and HK\$35,283,000 respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The Group's tax losses will expire in the following years:

	2023 HK\$'000	2022 HK\$'000
On 31 December 2025	19,897	18,349
On 31 December 2026	5,794	5,794
On 31 December 2027	701	–
On 31 December 2028	1,748	–
No expiry date	7,143	4,160
	35,283	28,303

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

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

As at 31 December 2023, no deferred tax has been recognised for withholding tax that would be payable on the undistributed earnings that are subject to withholding tax of the Group's subsidiaries incorporated in the PRC. In the opinion of the directors, the Group's fund will be retained in the Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	2,000,000,000	20,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	500,000,000	5,000

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 using a gearing ratio, which is the Group's total debts (comprising lease liabilities and borrowings) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios as at 31 December 2023 was 8.3% (2022: 1.1%). The increase in the gearing ratio of the Group is primarily due to increase in the balance of lease liabilities as a result of the addition of the right-of use assets as at 31 December 2023.

The only externally imposed capital requirement for the Group is in order to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required by the Listing Rules. As at 31 December 2023, 44.8% of the shares were in public hands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(a) Statement of financial position of the Company

	Note	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Investment in subsidiaries		_(i)	_(i)
Investment in associates	18	–	_(i)
		_(i)	_(i)
Current assets			
Amounts due from subsidiaries		81,157	81,957
Amount due from an associate		–	116
Prepayments and other receivables		133	288
Bank and cash balances		480	1,014
		81,770	83,375
Current liabilities			
Other payables and accruals		170	191
Net current assets		81,600	83,184
NET ASSETS		81,600	83,184
Capital and reserves			
Share capital	27	5,000	5,000
Reserves	28(b)	76,600	78,184
TOTAL EQUITY		81,600	83,184

(i) Represent amount less than HK\$1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(b) Reserve movement of the Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
	(note 29(b) (iv))		
At 1 January 2022	88,511	(8,319)	80,192
Total comprehensive income for the year	–	(2,008)	(2,008)
At 31 December 2022 and 1 January 2023	88,511	(10,327)	78,184
Total comprehensive income for the year	–	(1,584)	(1,584)
At 31 December 2023	88,511	(11,911)	76,600

Approved by the Board of Directors on 26 March 2024 and are signed on its behalf by:

Mr. Kwok Kwan Fai
Executive Director

Mr. Kwok Kwan Yu
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. RESERVES

(a) Group

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

(b) Nature and purpose of reserves

(i) *Statutory surplus reserve*

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

(ii) *Foreign currency translation reserve*

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

(iii) *Other reserve*

The other reserve of the Group represents the difference between the nominal value of shares of the group companies acquired pursuant to the group reorganisation over the nominal value of the share capital of Fame Investment issued in exchange therefor.

(iv) *Share premium*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2023 HK\$'000	2022 HK\$'000
Property, plant and equipment	312	271
Capital contribution to an associate	–	2,369
	312	2,640

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

- (i) Property, plant and equipment of HK\$444,000 (2022: HK\$783,000) were reclassified from deposits paid for property, plant and equipment during the year ended 31 December 2023.
- (ii) During the year ended 31 December 2023, the Group entered into a new lease agreement for the use of factory and dormitory in PRC for 5 years (2022: lease properties for 2 years). On the leases commencement, the Group recognised HK\$15,882,000 right-of-use assets and HK\$15,882,000 lease liabilities (2022: HK\$1,020,000 right-of-use assets and HK\$1,020,000 lease liabilities).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

(b) Reconciliation of liabilities arising from financing activities

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

	Non-cash changes					As at 31 December 2023 HK\$'000
	As at 1 January 2023 HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Additions of right-of-use assets HK\$'000	Foreign exchange movement HK\$'000	
Lease liabilities (note 25)	2,008	(3,019)	450	15,882	(102)	15,219
Interest on factoring arrangement (note 10)	–	(1,228)	1,228	–	–	–
	2,008	(4,247)	1,678	15,882	(102)	15,219

	Non-cash changes					As at 31 December 2022 HK\$'000
	As at 1 January 2022 HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Additions of right-of-use assets HK\$'000	Foreign exchange movement HK\$'000	
Lease liabilities (note 25)	4,004	(3,078)	165	1,020	(103)	2,008
Interest on factoring arrangement (note 10)	–	(569)	569	–	–	–
	4,004	(3,647)	734	1,020	(103)	2,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

(c) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

	2023 HK\$'000	2022 HK\$'000
Within operating cash flows	780	505
Within financing cash flows	3,019	3,078
	3,799	3,583

These amounts relate to the following:

	2023 HK\$'000	2022 HK\$'000
Lease rental paid	3,799	3,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. RELATED PARTY TRANSACTIONS

- (a) In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions.

	Note	2023 HK\$'000	2022 HK\$'000
Office and warehouse's rental paid for short-term lease to Ms. Lee Man Yee, Joanna	(i)	517	505
Employee benefit expenses to Ms. Lee Man Yee, Joanna	(i)	958	837
Sales of goods to DEM S.r.l	(ii)	5,803	2,601

Note:

- (i) Ms. Lee Man Yee, Joanna is the spouse of Mr. Kwok Kwan Fai.
- (ii) Mr. Kwok Kwan Yu has a 51% equity interest in DEM S.r.l.
- (b) Key management personnel remuneration is disclosed in notes 13 to 14.

33. OPERATING LEASE ARRANGEMENTS

- (a) On 11 December 2023, the Group entered into a new lease for the use of showroom that is not yet commenced, for a fixed term of 2 years commencing from 1 February 2024 to 31 January 2026 with non-cancellable and without extension options. The total future undiscounted cash flows over the non-cancellable period amounted to HK\$960,000.
- (b) The total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2023 HK\$'000	2022 HK\$'000
Within one year (<i>note</i>)	629	496

Note: During the year ended 31 December 2023, the Group entered into several short-term leases for an office premise and a warehouse in Hong Kong and the outstanding lease commitments relating to the office premise and warehouse are approximately HK\$503,000 (2022: HK\$496,000) and HK\$126,000 (2022: HK\$Nil) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34. OBLIGATION TO PAY LSP UNDER HONG KONG EMPLOYMENT ORDINANCE (CHAPTER 57)

Hong Kong employees that have been employed continuously for at least five years are entitled to long service payments (“LSP”) in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal. The amount of LSP payable is determined with reference to the employee’s final salary (capped at HK\$22,500) and the years of service, reduced by the amount of any accrued benefits derived from the Group’s contributions to MPF scheme (see Note 14), with an overall cap of HK\$390,000 per employee. Currently, the Group does not have any separate funding arrangement in place to meet its LSP obligation.

In June 2022, the Government gazetted the Amendment Ordinance, which abolishes the use of the accrued benefits derived from employers’ mandatory MPF contributions to offset the LSP. The abolition will officially take effect on 1 May 2025 (the “Transition Date”). Separately, the Government of the HKSAR is also expected to introduce a subsidy scheme to assist employers for a period of 25 years after the Transition Date on the LSP payable by employers up to a certain amount per employee per year.

Under the Amendment Ordinance, the Group’s mandatory MPF contributions, plus/minus any positive/negative returns, after the Transition Date can continue to be applied to offset the pre-Transition Date LSP obligation but are not eligible to offset the post-Transition Date long service payment obligation. Furthermore, the LSP obligation before the Transition Date will be grandfathered and calculated based on the last monthly wages immediately preceding the Transition Date and the years of service up to that date.

The Group has determined that the Amendment Ordinance primarily impacts the Group’s LSP liability with respect to Hong Kong employees that participate in MPF Scheme and has confirmed that the abolition has no material impact to the financial position of the Group as at 31 December 2023.

35. EVENT AFTER THE REPORTING PERIOD

On 16 January 2024, the Group obtained a new bank loan of RMB9,400,000 which is repayable on 21 January 2025. This borrowing is secured by certain leasehold land and buildings of the Group with a carrying value of HK\$11,140,000 as at 31 December 2023 (notes 16 and 17). The bank loan was used to provide the working capital of the Group.