



Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 00765

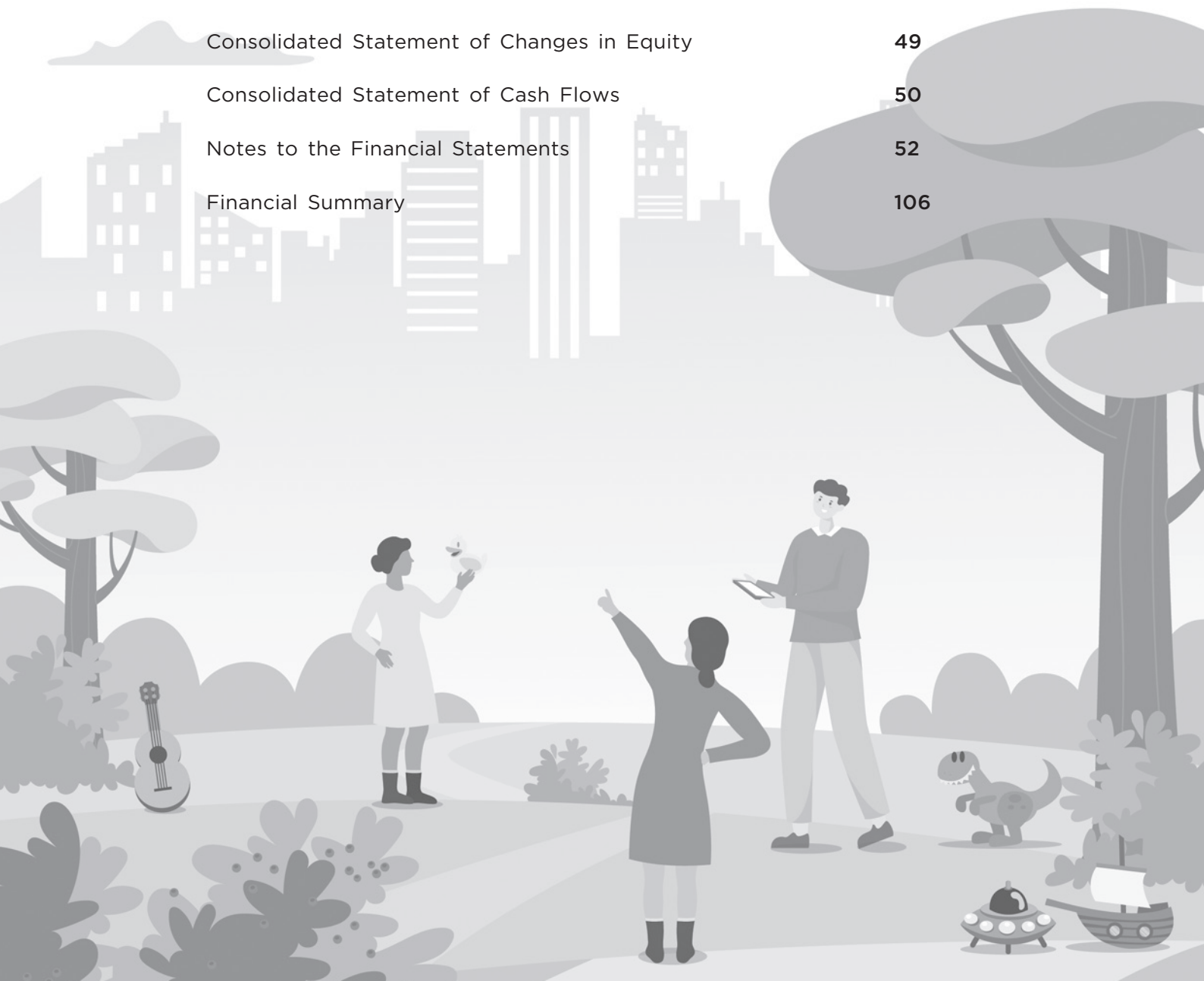


2023 ANNUAL REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Li Shaohua
Mr. Fang Guohong (*appointed on 14 March 2023*)
Mr. Poon Wai Yip, Albert

Independent Non-executive Directors:

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Geng Jianhua

AUDIT COMMITTEE

Mr. Lau Shu Yan (*Committee Chairman*)
Mr. Xie Xiaohong
Mr. Geng Jianhua

REMUNERATION COMMITTEE

Mr. Geng Jianhua (*Committee Chairman*)
Mr. Xie Xiaohong
Mr. Lau Shu Yan

NOMINATION COMMITTEE

Mr. Lau Shu Yan (*Committee Chairman*)
Mr. Xie Xiaohong
Mr. Geng Jianhua

COMPANY SECRETARY

Mr. Lam Ka Shun

AUTHORISED REPRESENTATIVES

Mr. Li Shaohua
Mr. Lam Ka Shun

AUDITOR

Confucius International CPA Limited
Certified Public Accountants
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance

LEGAL ADVISER

Ronald Tong & Co

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

15/F, Sun Hing Industrial Building
46 Wong Chuk Hang Road
Aberdeen
Hong Kong

WEBSITE

www.perfectech.hk



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Perfectech International Holdings Limited (the “Company”), together with its subsidiaries (collectively, the “Group”), principally engages in the manufacture and sale of novelties, decorations and toy products.

Business and Financial Review

Affected by the high interest rates, the Group’s operating environment remained challenging in 2023. For the year ended 31 December 2023, the Group’s revenue decreased by about 12% year-on-year to approximately HK\$155,905,000 (2022: HK\$177,458,000). The decrease in revenue was mainly due to decline in sales of toy products. The Group recorded a loss for the year ended 31 December 2023 attributable to owners of the Company of approximately HK\$30,532,000 (2022: loss of HK\$6,825,000). The basic and diluted loss per share were both at 9.34 HK cents (2022: both loss of 2.09 HK cents).

For the year ended 31 December 2023, the Group’s core business recorded a loss of approximately HK\$20,480,000 (2022: profit of HK\$715,000). The performance of each segment of the core business is discussed below.

Toy products

The revenue of toy products segment decreased by about 11% year-on-year to approximately HK\$152,049,000 (2022: HK\$170,895,000), and accounted for about 98% of total revenue of the Group. The loss of this segment was approximately HK\$16,714,000 (2022: profit of HK\$6,988,000). It was mainly attributable to the lower sales in Asia (other than Hong Kong) and the United States of America.

Novelties and decorations products

The revenue of the novelties and decoration products segment decreased by about 41% year-on-year to approximately HK\$3,856,000 (2022: HK\$6,563,000) and the loss of this segment was approximately HK\$3,766,000 (2022: loss of HK\$6,273,000). It was mainly attributable to the decline in demand for novelties and decorations products in Europe.

Distribution costs and administrative expenses

Distribution costs increased by about 24% year-on-year to approximately HK\$2,460,000 (2022: HK\$1,984,000) as a result of the increase in inspection cost.

Administrative expenses mainly comprised staff costs, directors’ emoluments, social insurance for the administrative staff in the PRC, depreciation of property, plant and equipment and right-of-use assets, legal and professional fee and other administrative expenses. The administrative expenses increased by about 10% year-on-year to approximately HK\$77,982,000 (2022: HK\$71,201,000), which was mainly attributable to the increase in the average number of full time employees of the Group during the year ended 31 December 2023.

Finance costs

Finance costs decreased by about 6% year-on-year to approximately HK\$692,000 (2022: HK\$738,000), as a result of the decrease in interest on lease liability.

Liquidity and financial resources

As at 31 December 2023, the Group had no outstanding loan (including bank borrowing, bond and other borrowing) (31 December 2022: Nil). The Group's gearing ratio, calculated on the basis of the total interest-bearing loans (including bank borrowing, bond and other borrowing) of the Group over the equity attributable to owners of the Company, was 0% (31 December 2022: 0%).

As at 31 December 2023, the Group had bank balances and cash of approximately HK\$42,986,000 (31 December 2022: HK\$67,298,000). With net current assets of approximately HK\$59,883,000 as at 31 December 2023 (31 December 2022: HK\$88,054,000), the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

Net asset value

The net asset value per share as at 31 December 2023 was approximately HK\$0.19 (31 December 2022: HK\$0.28), calculated on the basis of the equity attributable to owners of the Company of approximately HK\$62,397,000 (31 December 2022: HK\$91,748,000) over the outstanding number of ordinary shares in issue on 31 December 2023 of 326,923,607 (31 December 2022: 326,923,607).

Significant investments

As at 31 December 2023, the Group held financial assets at fair value through profit or loss ("FVTPL") amounted to approximately HK\$3,075,000 (31 December 2022: HK\$5,299,000), including equity securities listed in Hong Kong of HK\$970,000 (31 December 2022: HK\$2,638,000), debt securities listed outside Hong Kong of approximately HK\$55,000 (31 December 2022: HK\$205,000), unlisted equity-linked notes of approximately HK\$2,050,000 (2022: Nil) and nil unlisted managed funds (31 December 2022: HK\$2,456,000). Loss on disposal of financial assets at FVTPL amounted to approximately HK\$282,000 (2022: loss of HK\$576,000) and fair value loss on financial assets at FVTPL amounted to approximately HK\$281,000 (2022: loss of HK\$279,000) during the year ended 31 December 2023.

Pledge of assets

The Group did not have any pledged asset as at 31 December 2023 and 2022.

Employees and remuneration policies

As at 31 December 2023, the Group employed approximately 740 (2022: 700) full time employees. The Group remunerates its employees primarily based on prevailing industry practice as well as individual merits.

Foreign currency exposure

The Group's purchases are mainly denominated in Renminbi ("RMB") and Hong Kong Dollar (the "Hong Kong Dollar") while the Group's sales are mainly denominated in RMB and United States Dollar (the "US Dollar"). As all of its factories are located in the PRC, expenses incurred there are denominated in RMB. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of RMB to see if any action is required. As at 31 December 2023, the Group did not enter into any financial instrument for the hedging of exposure in foreign currencies.

Future Plans for Material Investments

As disclosed in the Company's voluntary announcement dated 1 August 2023, the Company has entered into a non-binding cooperation framework agreement ("August Framework Agreement") with the People's Government of Liangzhou District, Wuwei City, Gansu Province, the PRC* (武威市涼州區人民政府) ("Liangzhou Government") and Huaneng Jinxin Hengshun New Energy Co., Ltd.* (華能金鑫恒順新能源股份有限公司) ("Huaneng New Energy") pursuant to which the parties agreed to, subject to the execution of formal project agreement(s), cooperate in constructing sustainable energy related infrastructure and facilities, including power storage facilities and power transmission stations, to boost the sustainable energy sector in Liangzhou District. The Board was of the view that the August Framework Agreement could diversify the Group's product portfolio and income streams, thereby improving the profitability in the long term.

As disclosed in the Company's voluntary announcement dated 16 November 2023, China Digital Energy Storage Hong Kong Limited ("China Digital"), an indirect wholly-owned subsidiary of the Company, has entered into a non-legally binding cooperation framework agreement ("November Framework Agreement") with Nanjing Densens Automation Technology Co., Ltd.* (南京鼎臻自動化科技有限公司) ("Nanjing Densens"), under which China Digital or its subsidiary(ies) shall, subject to (among other things) the legal and financial due diligence to be conducted on Nanjing Densens, the execution of a legally binding definitive agreement, and grant of applicable regulatory, corporate and other approvals, acquire all the assets of and/or equity interest in Nanjing Densens. Nanjing Densens is principally engaged in (among things) research, development and manufacturing of new energy and related storage, monitoring, security, automated control and information systems management solutions and equipment. The Board was of the view that the transactions contemplated under the November Framework Agreement are conducive to the Group's plan to diversify its product portfolio and income streams.

As at the date of this report, no formal and binding agreement in respect of the cooperation contemplated under the August Framework Agreement and the November Framework Agreement has been entered into among the Company and the parties to each of the framework agreements.

Save as disclosed above, as at 31 December 2023, the Group did not have any concrete plans for material investments or capital assets for the year ending 31 December 2024.

* The English transliteration of Chinese name(s) or word(s) in this report, where indicated by "**", is included for reference only, and should not be regarded as the official English translation of such Chinese name(s) or word(s).

Prospect

While the Company endeavours to push forward and materialise the strategic cooperation envisaged under the framework agreements, it will continue to look for more quality mergers and acquisitions and integration opportunities in the field of oil and gas exploration and production and sustainable energy infrastructure, and develop into a resource integration company with energy as its core business.

The Directors will exercise caution in assessing the prospect of any new potential investment opportunities, in order to bring additional value and new income streams to the Group and create long-term returns for the shareholders of the Company (“Shareholders”) with enhanced values.

Meanwhile, the high interest rate is expected to continue to cast uncertainty and challenges on the Group’s operating environment in the second half of 2024. The Directors are moving ahead cautiously. The Group will continue to optimise its product mix to meet the demand of the customers, strengthen production and operational efficiency, as well as implement stringent cost management in order to minimise the impact of these challenges.

With the joint efforts of all of its employees, the Group endeavors to maintain a good business relationship with its customers, business partners and Shareholders to maximise its corporate value and deliver promising returns to its Shareholders.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

Closure of Register of Members

For the purposes of determining the eligibility of shareholders to attend and vote at the annual general meeting of the Company (“AGM”), the register of members of the Company will be closed from 27 May 2024, Monday to 6 June 2024, Thursday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong at Tricor Standard Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on 24 May 2024, Friday.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Shaohua (Mr. Li), aged 61, became an executive director, the chief executive officer and an authorised representative of the Company under Rule 3.05 of the Listing Rules on 21 February 2019. Mr. Li ceased to be the chief executive officer from 17 November 2022. He graduated from Daqing Petroleum College (now known as Northeast Petroleum University) with a bachelor degree in petroleum drilling engineering, and obtained a master degree in business administration from Murdoch University, Australia.

Mr. Li has over 35 years' experience in the areas of oil and natural gas industry, corporate management, and merger and acquisition. He was responsible for business operations, sales management and industrial investment in 華北石油管理局 (North China petroleum administration bureau*), 珠海格力電器股份有限公司 (Gree Electric Appliances Inc. of Zhuhai*) and 珠海九豐阿科能源有限公司 (Zhuhai Jovoarco Energy Ltd*) respectively, and served as a deputy general manager in 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd.*). Mr. Li is currently an independent non-executive director of China Finance Investment Holdings Limited (the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 00875).

Mr. Li has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

Mr. Fang Guohong, aged 59, became an executive director of the Company on 14 March 2023. He has nearly 30 years of experience in different companies engaging in manufacturing of various products, including insulation materials and fire-proof, wear-resistant materials mainly used in power generating systems. He was also actively involved in the development of wear-resistant materials for the power generating industry and has established extensive connections in the power generating industry in China.

Mr. Fang has entered into a service contract with the Company which shall continue to be effective unless terminated by three month's notice in writing served by either party on the other or payment in lieu.

Mr. Poon Wai Yip, Albert (Mr. Poon), aged 40, became an executive director of the Company on 6 December 2011. He graduated from the University of Nottingham, United Kingdom with a bachelor's degree of Engineering in Civil Engineering and a master of science degree in Management from the Imperial College of Science, Technology and Medicine in the United Kingdom. Mr. Poon has over ten years' experience in corporate finance and is responsible for the investment activities and corporate finance function of the Group. Prior to joining the Group in 2011, he worked for the corporate finance division of a licensed corporation registered under the Securities and Futures Ordinance (the "SFO") in Hong Kong and has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganisation, takeover matters and a variety of fund raising exercises. Also, Mr. Poon is an executive director of certain subsidiaries of the Company.

Mr. Poon has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

* for identification purpose only

Independent non-executive Directors

Mr. Lau Shu Yan (Mr. Lau), aged 42, became an independent non-executive director of the Company on 28 November 2016. He is the chairman of the audit committee of the Company and nomination committee and a member of the remuneration committee of the Company. Mr. Lau is currently a partner of an audit firm. He had previously worked in an international accounting firm and has over 10 years of experience in finance, auditing and accounting fields. He is currently an independent non-executive director of Daohe Global Group Limited (the shares of which are listed on the Main Board of the Stock Exchange (stock code: 915)), and was formerly an independent non-executive director of Union Asia Enterprise Holdings Limited (the shares of which are listed on the GEM of the Stock Exchange (stock code: 8173)) for the period from 31 December 2015 to 13 November 2019 and an independent non-executive director of 深圳市明華澳漢科技股份有限公司 (Shenzhen Mingwah Aohan High Technology Corporation Limited) (the shares of which are listed on the GEM of the Stock Exchange (stock code: 8301)) for the period from 30 September 2016 to 9 April 2020. Mr. Lau graduated from the University of Newcastle upon Tyne, the United Kingdom with a bachelor's degree in arts majoring in accounting and financial analysis. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Lau has entered into a service contract with the Company for a term of three years which has commenced from 28 November 2022.

Mr. Xie Xiaohong (Mr. Xie), aged 53, became an independent non-executive director of the Company on 28 November 2016. He is a member of the audit committee, remuneration committee and nomination committee of the Company. He has over 20 years of experience in providing business solutions and consulting services to banking, finance and telecommunication industries. Mr. Xie is a senior business consultant providing business solution and consulting services to Canadian banks, e.g. Bank of Nova Scotia, TD Bank, etc., in private or institutional wealth management businesses, or trading platform and surveillance of capital markets. Between 2011 and 2012, he was a business systems analyst at Investment Industry Regulatory Organization of Canada, and was responsible for market surveillances support on over 10 security exchange markets of Canada. Mr. Xie graduated from Peking University, China with a bachelor's degree of technical physics majoring in nuclear physics, and he has also obtained a master's degree of applied science majoring in systems design engineering from the University of Waterloo, Canada.

Mr. Xie has entered into a service contract with the Company for a term of three years which has commenced from 28 November 2022.

Mr. Geng Jianhua (Mr. Geng), aged 58, become an independent non-executive director of the Company on 8 October 2020. He is the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company. He is currently a professor and a doctoral advisor at Tongji University, with expertise in petroleum geophysical exploration, reservoir geophysics and rock physics. Mr. Geng currently serves as a council member of the Chinese Geophysical Society. Mr. Geng is also a member of the Chinese Petroleum Society, Chinese Geophysical Society, European Association of Geoscientists and Engineers, Society of Exploration Geophysicists and American Geophysical Union.

Mr. Geng has entered into a service contract with the Company for a term of three years which has commenced from 8 October 2023.

SENIOR MANAGEMENT

Mr. Lam Ka Shun (“Mr. Lam”), became the company secretary (the “Company Secretary”) and an authorised representative (the “Authorised Representative”) of the Company under Rule 3.05 of the Listing Rules on 13 September 2022. He has over 15 years of experience in accounting, auditing, corporate finance, corporate governance and mergers and acquisitions. Mr. Lam holds a Bachelor of Science in Business Administration majoring in accounting. Mr. Lam is qualified as a certified public accountant at The State Board of Accountancy of California of the United States of America, and a registered member of the American Institute of Certified Public Accountants. Mr. Lam is also the finance director of the Group and is responsible for the financial and accounting functions of the Group.



CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relations with its employees, business partners, shareholders and investors.

The Company has adopted a corporate governance code on 29 August 2013 which was further amended on 20 December 2018, based on the code provisions (the "Code Provisions") of the latest revised corporate governance code (the "Code") as set out in Appendix C1 to the Listing Rules from time to time as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2023, the Company has complied with the Code Provisions save for the following deviation:

Code Provision C.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

After the resignation of Ms. Zhu Yuqi as a non-executive director, the chairman of the Board (the "Chairman") and the chairman of the nomination committee of the Company on 15 December 2020, the duties of the Chairman have been undertaken by all members of the Board and the Company Secretary of the Company collectively.

The Board believes that with the support of the management, vesting the role of the Chairman and the Company Secretary collectively can facilitate the execution of the Group's business strategies and enhance the effectiveness of its operation. Further, the Board considers that the current structure will enhance the balance of power and authority between the Board and the management of the Group as the Board, which comprises experienced and high calibre individuals who met regularly to discuss issues pertaining to the operations of the Company, assumes collective responsibility on the decision making process of the Company's business strategies and operation.

The Board is in the process of identifying suitable candidate with appropriate experience to act as the Chairman, before which the duties of the Chairman will continue to be undertaken by the Directors and the Company Secretary collectively.

After the resignation of Mr. Li Shaohua as the CEO of the Company on 17 November 2022, the duties of the CEO have been undertaken by all executive Directors and the senior management of the Company collectively. The Board is currently in the process of identifying a suitable candidate to act as the CEO.

DIRECTORS

The Board

The Board steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

Board Composition

There are currently 6 Directors as at the date of this report, all being industry veterans, responsible to the Shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management of the Group. During the year ended 31 December 2023, the Board comprised the following Directors:

	Age	Field/Industry/Experience
<i>Executive Directors:</i>		
Mr. Li Shaohua	61	Oil and natural gas, corporate management, merger and acquisition
Mr. Fang Guohong	59	Power generating
Mr. Poon Wai Yip, Albert	40	Corporate Finance
<i>Independent Non-executive Directors:</i>		
Mr. Lau Shu Yan	42	Finance, auditing and accounting
Mr. Xie Xiaohong	53	Business solutions and consulting services to banking, finance and telecommunication industries
Mr. Geng Jianhua	58	Petroleum geophysical exploration, reservoir geophysics and rock physics

An up-to-date list of the Directors by category identifying their roles is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive Director or an executive Director and expresses the respective roles of each Director.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section "Biographical Details of Directors and Senior Management" on pages 7 to 9 of this annual report.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The independent non-executive Directors play an important role on the Board. Accounting for over half of the Board, they are experienced professionals in their respective fields and among the independent non-executive Directors, at least one of them has appropriate professional qualifications or accounting or related financial management expertise.

They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole.

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 with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors represented at least one-third of the Board.

Number of meetings attended/eligible to attend in 2023

During the year ended 31 December 2023, the Board held 4 regular meetings at about quarterly intervals and one additional meeting. As regards general meetings, the Company held the annual general meeting on 21 June 2023.

Attendance of individual Directors at the Board meetings and general meeting during the year ended 31 December 2023 is as follows:

	Board Meetings	General Meeting
<i>Executive Directors:</i>		
Mr. Li Shaohua	5/5	1/1
Mr. Fang Guohong	5/5	1/1
Mr. Poon Wai Yip, Albert	3/5	1/1
<i>Independent Non-executive Directors:</i>		
Mr. Lau Shu Yan	5/5	1/1
Mr. Xie Xiaohong	5/5	1/1
Mr. Geng Jianhua	5/5	1/1

Notices of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they have sufficient time to review the board papers and be adequately prepared for the meeting, to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

Apart from physical meeting, the Board and Board committees have also considered and resolved matters by way of circulation of written resolutions from time to time.

The Board and each Director, upon reasonable request, have access to independent professional advice in appropriate circumstances to assist them in performing their duties to the Company, at the Company's expense.

Minutes of all Board meetings, meetings of the audit committee of the Company (the “Audit Committee”), the remuneration committee of the Company (the “Remuneration Committee”) and the Nomination Committee are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

According to the current Board practice, any transaction, which the Board has determined to be material, which involves a conflict of interests between a substantial Shareholder or a Director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive Directors who, and whose close associates, have no material interest in the said transaction rather than a written resolution. Directors shall abstain from voting and shall not be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and Chief Executive

Before the Company could identify a suitable candidate to assume the role of the Chairman, the duties of the Chairman will be undertaken by the Directors and the Company Secretary collectively.

In accordance with the Directors’ Memorandum in Discharging Directors’ Duties adopted by the Company on 27 March 2012 (the “Memorandum”), the Company’s Chairman is responsible for:

- overseeing the development of the long-term strategies, objectives and policies for the Company;
- ensuring all Directors are properly briefed on matters to be discussed at Board meetings;
- ensuring all Directors receive adequate, accurate, clear, complete and reliable information in a timely manner;
- providing leadership for the Board;
- ensuring that the Board works effectively and performs its responsibilities;
- ensuring that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other Directors for inclusion in the agenda;
- taking primary responsibility for ensuring that good corporate practices and procedures are in place;
- encouraging all Directors to make a full and active contribution to the Board’s affairs and take the lead to ensure that it acts in the best interests of the Company;
- encouraging Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that Board decisions fairly reflect Board consensus;
- ensuring appropriate steps are taken to provide effective communications with Shareholders and that views of Shareholders are communicated to the Board as a whole;

- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- attending the AGM and arranging for the chairman of the Audit Committee, Remuneration Committee and Nomination Committee (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the AGM;
- holding meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present; and
- deciding whether a resolution at a general meeting relating purely to a procedural or administrative matter should be excluded from the requirement for voting by poll.

Mr. Li Shaohua has resigned from his position as the CEO of the Company with effect from 17 November 2022. Before the Company could identify a suitable candidate to assume the role of the CEO, the duties of the CEO will be undertaken by all executive Directors and the senior management of the Company collectively. In accordance with the Memorandum, the CEO (referred to as the “Managing Director” in the Memorandum) is responsible for:

- providing leadership to the management for the implementation of the Company’s policy and report to the Board;
- overseeing the realisation by the Company of the objectives set by the Board;
- providing all necessary information to the Board to enable the Board to monitor the performance of the management;
- putting in place programmes for management development and succession;
- with the chief financial officer of the Company (“CFO”, and referred to as the “Finance Director”), establishing and maintaining proper internal controls and systems as well as disclosure controls and procedures;
- discharging such duties and obligations as may be delegated to him/her by the Board;
- being responsible to the Board for the development of the Company and its operation, including the profits, cash and costs of all businesses;
- ensuring that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board;
- advising the Chairman on the allocation of duties to individual Director(s) and the assignment of ad-hoc responsibilities or special tasks to Directors or groups of Directors;
- leading the Company’s processes for communicating to, and consulting with, employees;
- leading the Company’s public relations, including relations with the Shareholders, governments, other public organisations, other companies and the public generally; and
- regularly keeping the Chairman informed of all matters that may be important to the Company, including its current performance and progress.

Appointments, re-election and removal

Under Bye-law 99 of the Company's bye-laws ("Bye-Laws") and Code Provision B.2.2, every Director, including those appointed for a specific term shall be subject to retirement by rotation at the annual general meeting at least once every three years while those retiring Directors shall be eligible for re-election. Under Bye-law 102(B) of the Bye-Laws, all Directors appointed to fill a casual vacancy should only hold office until the next annual general meeting and shall then be eligible for re-election at the meeting.

Accordingly, each of Mr. Poon Wai Yip, Albert and Mr. Geng Jianhua shall retire at the forthcoming AGM and each of them, being eligible, offer themselves for re-election at the forthcoming AGM.

Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

Nomination of Directors

On 27 March 2012, the Board has established a Nomination Committee pursuant to the requirements of the revised Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which they are charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and Board committee meetings indicates the constant participation of all Directors, including executive, non-executive and independent non-executive Directors and ensures the better understanding of the views of Shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

The Board and the Board committees are supplied with adequate, complete and reliable information by the management in a timely manner which enables them to make informed decisions.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the Directors may make inquiries where necessary. The Board and the Directors have separate and independent access to the senior management.

All Directors have access to Board papers and related materials in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2023 to 31 December 2023:

Corporate Governance/ Updates on Laws, Rules and Regulation

Read materials

Directors

Executive Directors

Mr. Li Shaohua	✓
Mr. Fang Guohong	✓
Mr. Poon Wai Yip, Albert	✓

Independent Non-executive Directors

Mr. Lau Shu Yan	✓
Mr. Xie Xiaohong	✓
Mr. Geng Jianhua	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct governing the Directors' transactions in securities of the Group on terms no less exacting than the standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") contained in Appendix C3 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2023, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2023 are set out on page 35 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employees, including any employee of the Company or a Director or employee of a subsidiary or holding company of the Company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

The Board is responsible for formulating strategies and business plans for the Group and is collectively responsible for its success.

Management Functions

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior Board approval.

The functions reserved to the Board and those delegated to management have been formalised and are reviewed periodically to ensure that they remain appropriate to the needs of the Company. The Board has adopted the Memorandum setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management. The Memorandum has also set out a set of principles which the Board should adhere to when it delegates authority.

In accordance with the Memorandum, the types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;



CORPORATE GOVERNANCE REPORT

- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management of the Company;
- communication with key stakeholders, including Shareholders and regulatory bodies; and
- reviewing and monitoring the policies and practices on corporate governance.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities into a new geographic location or a new business in a non-material manner;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnel other than the member of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Directors clearly understand the above delegation arrangements of the Company.

During the year ended 31 December 2023, the Board reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors and the senior management of the Company, the code of conduct applicable to employees of the Company and Directors and the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Board Committees

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure the operational efficiency and specific issues are being handled by personnel with relevant expertise. All Board committees are provided with accurate and sufficient information in timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

During the year ended 31 December 2023, the Board had 3 Board committees, which are the Remuneration Committee, the Audit Committee, and the Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board committee at the meetings of the committees during the year ended 31 December 2023 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
<i>Executive Directors</i>			
Mr. Li Shaohua	N/A	N/A	N/A
Mr. Fang Guohong	N/A	N/A	N/A
Mr. Poon Wai Yip, Albert	N/A	N/A	N/A
<i>Independent Non-executive Directors</i>			
Mr. Lau Shu Yan	2/2	N/A	N/A
Mr. Xie Xiaohong	2/2	N/A	N/A
Mr. Geng Jianhua	2/2	N/A	N/A

Nomination Committee

On 27 March 2012, the Board has established the Nomination Committee pursuant to the requirements of the Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Directors. The Nomination Committee currently comprises 3 independent non-executive Directors, namely Mr. Lau Shu Yan (chairman of Nomination Committee), Mr. Xie Xiaohong and Mr. Geng Jianhua.

The Nomination Committee is governed by its terms of reference, which were revised on 29 August 2013 and are closely aligned with the relevant Code Provisions requirements. They are available at both the Company's website and the Stock Exchange's website www.hkex.com.hk.

During the year ended 31 December 2023, the Nomination Committee has not held any meeting.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors; and
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy.

During the year, the Nomination Committee has conducted the following tasks:

- reviewing the policy for the nomination of Directors;
- reviewing the nomination procedures and process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year;
- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board;
- making recommendations to the Board regarding proposed changes to implement the Company's corporate strategy;
- assessing the independence of the independent non-executive Directors;
- assessing the time required for a Director to perform his responsibilities; and
- reviewing the board diversity policy of the Company (the "Board Diversity Policy") including the measurable objectives that it has set for implementing the policy and the progress on achieving those objectives.

The Company consolidated its nomination procedures and selection criteria of directors into the nomination policy of the Company (the "Nomination Policy"), which was approved by the Nomination Committee and confirmed by the Board on 20 December 2018, and was effective on 1 January 2019. The Nomination Policy is as follows:

Objective

1. This Nomination Policy aims to list out the principles and procedures for selection and nomination of members to the Board, to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.
2. The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election as Directors at general meetings or appoint as directors to fill casual vacancies.
3. The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

Selection Criteria

4. The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

Common Criteria for All Directors

- 4.1. Reputation for character and integrity
- 4.2. Commitment in respect of available time
- 4.3. The willingness to assume broad fiduciary responsibility
- 4.4. Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- 4.5. Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organisation, industry experience and familiarity with the products and processes used by the Company
- 4.6. Significant business or public experience relevant and beneficial to the Board and the Company
- 4.7. Breadth of knowledge about issues affecting the Company
- 4.8. Ability to objectively analyse complex business problems and exercise sound business judgment
- 4.9. Ability and willingness to contribute special competencies to Board activities
- 4.10. Fit with the Company's culture
- 4.11. Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

Criteria Applicable to Non-executive Directors/Independent Non-executive Directors

- 4.12. Willingness and ability to make sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director (including attendance at and active participation in Board and committee meetings), which will include considering the other responsibility of the relevant candidate (such as other directorships held in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, and other major appointments, if any) and the effort and time that may be required by the candidate in fulfilling such role
- 4.13. Accomplishments of the candidate in his/her field
- 4.14. Outstanding professional and personal reputation
- 4.15. The candidate's ability to meet the independence criteria for directors established in the Listing Rules

5. These factors are for reference only, and are not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.
6. Retiring directors, save for those who have served as independent non-executive directors for a period of 9 consecutive years or more, are eligible for nomination by the Board to stand for re-election at a general meeting. Any independent non-executive director of the Company who has served such role for a period of 9 consecutive years or more are, subject to the Nomination Committee being satisfied that he/she still maintains his/her independence and that his/her continuation to serve in such role is in the interest of the Company and its Shareholders as a whole, be eligible for nomination by the Board to stand for re-election at a general meeting.
7. Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as Director.
8. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

Nomination Procedures

9. The human resources team of the Company shall be responsible to liaise with the Company Secretary to call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.
10. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The Nomination Committee shall follow the procedures below when considering nomination of directors:
 - 10.1. the Nomination Committee will evaluate the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy or the directorship the candidate is proposed to take (e.g. independence status in the case of an independent non-executive director);
 - 10.2. the Nomination Committee will consider the role and capabilities required for the particular vacancy or the directorship;
 - 10.3. the Nomination Committee will identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors, and will to the extent possible select from a broad range of candidates who are outside the Board's circle of contacts in accordance with the Board Diversity Policy;
 - 10.4. where appropriate, the Nomination Committee will conduct interview with the relevant candidate to evaluate whether he/she meets the aforesaid selection and nomination criteria, and verify the information provided by the candidate; and
 - 10.5. the Nomination Committee will make recommendations to the Board on the appointment or re-appointment of directors.

11. The Nomination Committee shall ensure the selection process should be transparent and fair.
12. For the avoidance of doubt, the ultimate responsibility for selection and appointment of directors rests with the entire Board.
13. Until the issue of the relevant circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.
14. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, a circular will be sent to shareholders. The names, brief biographies (including qualifications and relevant experience), independence (for independence non-executive directors), proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to Shareholders.
15. "Procedures for shareholders to propose a person for election as a director" shall apply in respect of the nomination by Shareholder(s) of person for election as director.
16. A candidate is allowed to withdraw his/her candidature at any time before the despatch of circular to Shareholders for election at the general meeting by serving on the Company a notice in writing provided that such notice shall be served on the Company not less than 3 business days prior to the despatch of the said circular.
17. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

Confidentiality

18. Unless required by law or any regulatory authority, under no circumstances shall a member of the Nomination Committee or a staff member of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to Shareholders, as the case may be, is issued. Following the issue of the circular, the Nomination Committee or other staff member of the Company, approved by the Nomination Committee may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and candidates should not be disclosed.

Review

19. In addition to meeting for the purpose of considering Board appointment(s), the Nomination Committee shall from time to time (and at least once annually) meet:
 - 19.1. to review and consider the performance of the Board, including but not limited to looking at benchmarking how the Board measures up against the other board of directors of peer issuers;
 - 19.2. to consider the need to refresh the Board composition regularly to avoid entrenchment and to introduce fresh ideas;
 - 19.3. to consider Board succession planning and conduct periodical reviews of the plan to ensure the long term success of the Company; and
 - 19.4. to monitor and review this Nomination Policy to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice.

20. The Nomination Committee will continually review this Nomination Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Nomination Policy at any time.
21. The Board may in accordance with the requirements of the relevant laws and regulations disclose in the Company's Corporate Governance Report annually of any information regarding this Nomination Policy, procedures and objectives made for implementation of this Nomination Policy and the progress made towards achieving the objectives.

Board Diversity Policy

The Board has adopted the Board Diversity Policy on 29 August 2013, which was revised and updated with effect from 1 January 2019 as approved by the Board on 20 December 2018. The Board Diversity Policy sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development, and a diverse Board also helps to achieve a diversity of views and perspectives among members of the Board, to enhance decision making capacity, and to fairly and effectively safeguard the interests of various stakeholders, especially the long term shareholders interests of the Company. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimal composition of the Board. All Board appointments and succession will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board has set measurable objectives based on a range of diversity factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service to implement the Board Diversity Policy and has reviewed such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. In particular, in accordance with the requirements under the Code, the Company has set an initial target of appointing at least one director of a different gender on the Board by 31 December 2024. For the year ended 31 December 2023 and as at the date of this annual report, the Board comprises six male members only and hence there is no female representation on the Board. Further, the Board currently consists of members with different skills and professional backgrounds (including business management, production, engineering, accounting, finance, legal and technology). Other than the target of appointing a new director of different gender on or before 31 December 2024, the Nomination Committee considers that the current composition of the Board is diversified after taking into account its own business model and specific needs, both in terms of professional background and skills.

The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure the effectiveness of the same. It will discuss revisions that may be required, and recommend any such revisions to the Board for consideration and approval. It will also monitor the implementation of the Board Diversity Policy and the Board has reviewed the implementation of the Board Diversity Policy in 2023 and is of the view that it has been properly implemented and is effective.

The Company aims to maintain an appropriate balance of diverse perspectives that are relevant to the Company's business growth. The Company is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. As at 31 December 2023, 55% of the workforce of the Group are female while the remaining 45% are male. Further details on the gender ratio in the workforce of the Group together with other relevant data are set out on page 9 of the Environmental, Social and Governance Report of the Company for the year ended 31 December 2023. The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and in the workforce.

Remuneration Committee

Remuneration of Directors

The Remuneration Committee was established pursuant to Rule 3.25 of the Listing Rules. It makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which were adopted by the Board on 27 March 2012 pursuant to the revised Code. The terms of reference are made available on the Company's website www.perfectech.hk and the Stock Exchange's website www.hkex.com.hk.

The Remuneration Committee currently comprises 3 members, namely Mr. Geng Jianhua (chairman of Remuneration Committee), Mr. Lau Shu Yan and Mr. Xie Xiaohong.

During the year ended 31 December 2023, the Remuneration Committee has not held any meeting.

The work performed by the Remuneration Committee during the year ended 31 December 2023 included the following:

- making recommendations to the Board on the remuneration policy and structure of Directors and senior management;
- assessing performance of executive Directors;
- approving specific remuneration packages of all executive Directors and senior management;
- making recommendations to the Board of the remuneration of non-executive Directors; and
- conducting the salary review of the Group for the year ended 31 December 2023.

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for executive Directors and non-executive Directors:

Emolument Policy for Executive Directors

1. A proportion of executive Directors' remuneration should be structured to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive Directors.
3. The performance-related elements of remuneration should be designed to align the executive Directors' interests with those of Shareholders and to give the Directors incentives to perform at the highest levels.
4. Factors for defining performance-based remuneration:
 - (a) Eligibility for annual bonuses and any upper limits
 - (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business
 - (c) Eligibility for long-term incentive schemes, e.g. share option schemes, is subject to performance criteria which reflect the Company's performance
 - (d) Examples of performance indicators:
 - (i) share price
 - (ii) net earnings figure

Emolument Policy for Non-executive Directors

1. Levels of emolument of non-executive Directors should reflect the time commitment and responsibilities of the role.
2. Non-executive Directors should have the opportunity to have part of their remuneration in share options on the condition that they are granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in note 10(a) to the consolidated financial statements.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring effective and adequate systems are in place for risk management and internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises the following members, namely Mr. Lau Shu Yan (chairman of Audit Committee), Mr. Xie Xiaohong and Mr. Geng Jianhua.

Mr. Lau Shu Yan has professional qualifications in accounting.

The Audit Committee is governed by its terms of reference, which have been revised by the Board on 26 August 2015 pursuant to the revised Code. The terms of reference are made available on the Company's website www.perfectech.hk and the Stock Exchange's website www.hkex.com.hk.

During the year ended 31 December 2023, the Audit Committee met two times. The attendance of the members therein is included in the table set out above.

The Audit Committee meetings are normally attended by the Financial Director and the external auditor, for discussion of the Company's annual and interim results. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during the year ended 31 December 2023 included consideration of the following matters:

- the completeness and accuracy of the 2022 annual and 2023 interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- detailed analysis of various aspects of the Company's financial performance;
- investment policies and possible impact of certain investment transactions;
- the audit fees payable to external auditors, the scope and timetable of the audit for the year ended 31 December 2023;
- recommendations to the Board, for the approval by Shareholders, for the reappointment of Messrs. Confucius International CPA Limited as the external auditors; and
- reviewed and discussed with the management the internal control and risk management systems.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee is also supported by the external auditor.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Board is responsible for the integrity of the financial information of the Group. The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the “Independent Auditor’s Report” on pages 41 to 45 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue its operational existence for the foreseeable future and hence decide that it is appropriate to prepare the consolidated financial statements set out on pages 46 to 105 of this annual report on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the “Management Discussion and Analysis” set out on pages 3 to 6 of this annual report.

The management provides the Board with sufficient explanation and information, such as the Group’s major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company’s performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

Risk Management and Internal Controls

During the year ended 31 December 2023, the Group has established and maintained an appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis.

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: the management would identify business objectives and existence of significant risks that could affect the achievement of objectives by examining reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Audit Committee and the Board if any significant risks are discovered; the internal audit function of the Company would also conduct risk assessments of the Group and report to the Board via Audit Committee if significant risks are identified;

- **Evaluation:** the Audit Committee would analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly, having considered the opinions of the internal audit function of the Company and the management (if any); and
- **Management:** the Audit Committee would consider the risk responses, and ensure effective communication to the Board regarding the risks identified and the corresponding remedial plans and recommendations, and the Board via the Audit Committee would monitor the residual risks on an on-going basis.

Based on the risk assessments conducted during the year ended 31 December 2023, no significant risk was identified.

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organisations of the Treadway Commission (“COSO”) 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follows:

- **Control Environment:** A set of standards, processes and structures that provide the basis for carrying out internal control across the Group;
- **Risk Assessment:** A dynamic and iterative process for identifying and analysing risks to the achievement of the Group’s objectives, forming a basis for determining how risks should be managed;
- **Control Activities:** Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out;
- **Information and Communication:** Internal and external communication to provide the Group with the information needed to carry out day-to-day controls; and
- **Monitoring:** Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Based on the internal control reviews conducted during the year ended 31 December 2023, no significant control deficiency was identified.

In order to enhance the Group’s system of handling and disseminating inside information, and to ensure the truthfulness, accuracy, completeness and timelines of its public disclosures, the Group also adopts and implements inside information procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- the access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;
- confidentiality agreements are in place when the Group enters into significant negotiations; and
- the executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

The Group has an internal audit (“IA”) function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group’s daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

Review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards. Such review has been conducted for the year ended 31 December 2023.

The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and ensures review of the effectiveness of these systems has been conducted. Such systems, however, 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.

Regarding the review of the risk management and internal control systems, apart from the works of the IA function, the management also examine reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Board if any major internal control failings or weaknesses were discovered. External auditors would also report on the weakness in the Group's internal control and accounting procedure which have come to their attention during the course of their audit.

Both the Audit Committee and the Board will review the Company's internal control and risk management systems at least annually and such review has been conducted for the year ended 31 December 2023 having taken into account the results of the review conducted by the IA function, and the information from the management and the external auditors (if any).

The Board, through its reviews and the reviews made by IA function and Audit Committee, has not identified any significant areas of concern, risks or major internal control failings or weaknesses, and concluded that the risk management and internal control systems were effective and adequate. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

In any event, in case any material internal control defects are identified, the Audit Committee will review the actions performed or the plans to be carried out by the management in addressing the issues and defects regarding the internal control and risk management systems. The corresponding remedial plans and recommendations to resolve such defects will then be submitted to the Board for consideration.

Auditor's Remuneration

The Company's external auditor is Confucius International CPA Limited. For the year under review, the remuneration paid for services provided by the auditors is as follows:

Services Rendered	Fees Paid/ Payable HK\$'000
Audit services	<u>800</u>

COMPANY SECRETARY

Mr. Lam Ka Shun is the Company Secretary. The Company Secretary is responsible to the Board and reports to the Chairman from time to time. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed.

According to Rule 3.29 of the Listing Rules, the Company Secretary is required to take no less than 15 hours of relevant professional training during the year ended 31 December 2023. Mr. Lam Ka Shun fulfilled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

The general meetings of the Company provide the best opportunity for communication between the Board and the Shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman and the chairman of the Remuneration Committee, the Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, were available to answer questions at the Shareholders' meetings.

Voting by Poll

The Company stipulates in each relevant corporate communication that the Shareholders shall vote by poll so as to allow the Shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the Shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

Shareholders' Rights to Convene a Special General Meeting

Further to the Companies Act 1981 of Bermuda and under Bye-law 62 of the Bye-Laws, a special general meeting can be convened on requisition. One or more shareholders holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per share basis) in the share capital of the Company may make a requisition to convene a special general meeting and/or add resolutions to the agenda of a meeting. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Shareholders' Communication Policy

Based on the requirement of the Code, a Shareholders Communication Policy was formulated and adopted on 27 March 2012 in order to ensure the Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with the Shareholders. The effectiveness of Shareholders communication under the said policy had been reviewed by the Board.

The most recent Shareholders' meeting was the annual general meeting held on 21 June 2023 at 24/F, Admiralty Centre 1, 18 Harcourt Road, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated financial statements and reports of the Directors and auditors for the year ended 31 December 2022;
- re-electing Directors who retired from office by rotation and authorising the Board to fix the remunerations of the Directors;
- re-appointing the Company's external auditor and authorising the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company ("General Mandate");
- passing a repurchase mandate to allow the Directors to repurchase shares of the Company ("Repurchase Mandate");
- passing a general extension mandate to allow the Directors, after the grant of Repurchase Mandate, to add to the General Mandate any shares repurchased pursuant to the Repurchase Mandate (the "General Extension Mandate"); and
- approving the proposed amendments and to adopt the amended and restated Bye-Laws of the Company.

Constitutional Documents

In view of the revision of Appendix 3 to the Listing Rules, the Board resolved to amend the existing Bye-Laws and put forward the proposed amendments for consideration and approval by the Shareholders at the annual general meeting of the Company held on 21 June 2023. The amendments to the Bye-Laws were mainly made in order to, among others, (i) comply with and align with the requirements under Appendix 3 to the Listing Rules which came into effect on 1 January 2022; (ii) incorporate provisions to allow and facilitate hybrid and electronic meetings; and (iii) update and clarify provisions where it is considered desirable together with other minor housekeeping amendments. The current Bye-Laws, which incorporated the proposed amendments, were approved by the Shareholders at the annual general meeting of the Company held on 21 June 2023 and took effect from 21 June 2023.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website www.perfectech.hk.

Enquiries and proposals to be put forward at Shareholders' meetings can also be sent to the Board or senior management by contacting the Investment Department at (852) 39650088, via e-mail to info@perfectech.com.hk.



REPORT OF THE DIRECTORS

The Directors hereby present their annual report (the “Report of the Directors”) and the audited consolidated financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

BUSINESS REVIEW

Details of the activities during the year ended 31 December 2023, including a fair review of the business of the Group with financial performance indicators, including revenue, loss for the year attributable to owners of the Company, loss per share, gearing ratio and net asset value per share, and an indication of likely future development in the Group’s business are explained in the “Management Discussion and Analysis” set out on pages 3 to 6 of this annual report. The above financial performance indicators reflect the Group’s profitability, value and liquidity as well as how the Group finance its operations and build its capital structures.

The Group’s financial performance, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including foreign currency risk, credit risk, and liquidity risk. The financial risk management objectives and policies of the Group are set out in note 29 to the consolidated financial statements.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers, employees and other stakeholders to meet its immediate and long-term goals. During the year ended 31 December 2023, there was no material and significant dispute between the Group and its suppliers, customers, employees and/or other stakeholders.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 46 of this annual report.

No interim dividend was paid during the year ended 31 December 2023. The Board does not recommend the payment of a final dividend for the year ended 31 December 2023.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2023, the five largest customers of the Group in aggregate accounted for approximately 98% of the total revenue of the Group and the largest customer accounted for approximately 90% of the total revenues of the Group. The Group has business relationship with its largest customer and most of the major customers for more than 10 years. For the credit period granted to the customers, please refer to note 18 to the consolidated financial statements. The material payment from the customers has been settled within the credit period.

The five largest suppliers of the Group in aggregate accounted for approximately 35% of the total purchases of the Group and the largest supplier accounted for approximately 12% of the total purchases of the Group. The Group has business relationship with its largest supplier and most of the major suppliers for more than 10 years. For the credit period granted by the suppliers, please refer to note 21 to the consolidated financial statements. The material payables are paid within the credit period.

At no time during the year ended 31 December 2023 had a Director, an associate of a Director or a Shareholder (which, to the best knowledge of the Directors, owned more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest customers and/or five largest suppliers.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended approximately HK\$3,403,000 on property, plant and equipment during the year.

Details of the above and other movements during the year ended 31 December 2023 in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARES ISSUED IN THE YEAR

No shares of the Company were issued during the year ended 31 December 2023.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023, the Company had no reserve available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account in the amount of approximately HK\$118,895,000 as at 31 December 2023 may be distributed in the form of fully paid bonus shares.

DIRECTORS

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

Executive Directors:

Mr. Li Shaohua
Mr. Fang Guohong (*appointed on 14 March 2023*)
Mr. Poon Wai Yip, Albert

Independent Non-executive Directors:

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Geng Jianhua

In accordance with Bye-law 99 of the Bye-Laws and the Code on Corporate Governance of the Company, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting at least once every three years. All retiring Directors shall be eligible for re-election.

DIRECTOR'S SERVICE CONTRACTS

No director has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All independent non-executive Directors had been/have been appointed for a term of approximately three years.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2023, none of the Directors, nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2023 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2023.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of their relevant interests in the issued shares of the Company as follows:

Long position in the shares of the Company

Shareholders	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Zhai Jun	Interest of controlled corporation	125,297,040	—	125,297,040 ⁽¹⁾	38.33
Star Fly Limited	Beneficial owner	125,297,040	—	125,297,040 ⁽¹⁾	38.33
Mr. Gao Xiaorui	Interest of controlled corporation	77,952,041	—	77,952,041 ⁽²⁾	23.84
Fresh Choice Holdings Limited	Beneficial owner	77,952,041	—	77,952,041 ⁽²⁾	23.84
Hou Han Ping*	Beneficial owner	18,757,200	—	18,757,200	5.74
Yan Guo Liang*	Beneficial owner	18,528,000	—	18,528,000	5.67



REPORT OF THE DIRECTORS

Notes:

1. For the purpose of Part XV of the SFO, as at 31 December 2023, Mr. Zhai Jun was deemed to be interested in the 125,297,040 shares of the Company held by Star Fly Limited. Star Fly Limited is a limited company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun.
2. For the purpose of Part XV of the SFO, as at 31 December 2023, Mr. Gao Xiaorui was deemed to be interested in 77,952,041 shares of the Company held by Fresh Choice Holdings Limited. Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui and 10% by Ms. Yu Hsuan-Jung.

* The English transliteration is given for reference only.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

CORPORATE GOVERNANCE

The Company has adopted the Code set out in Appendix C1 of the Listing Rules as its own corporate governance code throughout the year ended 31 December 2023.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report on pages 10 to 32 of this annual report.

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 had purchased, sold or redeemed any of its shares whether on The Stock Exchange of Hong Kong Limited or otherwise.

EMOLUMENT POLICY

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

The emoluments of the Directors are decided by the Board (for the non-executive Directors) or by the Remuneration Committee (for the executive Directors), having regard to the Company's operating results, individual performance, background, qualification, skills, experience, time commitment and responsibilities of the relevant Directors, comparable market statistics and employment conditions elsewhere in the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CHANGE OF DIRECTORS' PARTICULARS

There is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2023.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2023 and up to the date of this report, none of the Directors has any interest in business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

ENVIRONMENTAL POLICIES

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group also commits to the principle and practice of recycling and reducing waste. To help conserve the environment, it implements green office practices such as encouraging use of recycled paper for printing and copying, double-sided printing and copying, and switching off idle lightings, air conditioning and electrical appliances to reduce energy consumption.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company has complied with all the relevant laws and regulations that have a significant impact on the Company, including the Companies Ordinance (Cap. 622 of the laws of Hong Kong, "CO"), the SFO and the Listing Rules. Compliance procedures are put in place to ensure compliance with relevant laws and regulations. Our professional employees attend on-going professional development programs in order to keep abreast of the latest development of the laws and regulations. External legal advisors are engaged to advise on the compliance matters if and when necessary.

AUDITOR

The Group's consolidated financial statements for the year ended 31 December 2023 have been audited by the Company's auditor, Messrs. Confucius International CPA Limited, Certified Public Accountants. Confucius International CPA Limited shall retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Confucius International CPA Limited will be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The annual results for the year ended 31 December 2023 have been reviewed by the Audit Committee, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2023 or subsisted at the end of the year ended 31 December 2023.

PERMITTED INDEMNITY PROVISION

Bye-law 178 of the Bye-Laws provides that 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 or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties or supposed duty in their respective offices or trusts. The Company has also taken out and maintained directors' liability insurance which provides appropriate cover for the Directors and directors of the subsidiaries of the Group.

Such permitted indemnity provisions have been in force throughout the year ended 31 December 2023 and is currently in force at the time of approval of this report.

MANAGEMENT CONTRACT

Save for employment contracts, no contracts concerning the management and administration of the whole or substantial part of any business of the Company were entered into or subsisted during the year ended 31 December 2023.

DIVIDEND POLICY

The Company has confirmed and consolidated its dividend policy (the "Dividend Policy") on 20 December 2018.

The Dividend Policy is as follows:

PURPOSE

1. This Dividend Policy aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

FACTOR(S) TO BE CONSIDERED FOR DECLARATION OF DIVIDENDS

2. In considering whether to declare any dividend, the Board shall consider factors in all aspects including but not limited to the operating results, cash flow, financial condition and capital requirements of the Group and the interests of the Shareholders, including but not limited to:
 - 2.1. the Company's actual and expected financial performance;
 - 2.2. retained earnings and distributable reserves of the Company and each of the members of the Group;
 - 2.3. the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
 - 2.4. any restrictions on payment of dividends that may be imposed by the Group's lenders;
 - 2.5. the Group's expected working capital requirements and future expansion plans;
 - 2.6. general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
 - 2.7. any other factors that the Board deem appropriate.

PRINCIPLES IN RELATION TO DECLARATION OF DIVIDENDS

3. If the Group records a profit and the Board, having considered factors of all aspects (including but not limited to those factors set out in paragraph 2), is satisfied that the declaration and distribution of dividends does not affect the Group's normal operations, and subject to compliance with any restrictions under the Companies Law of Bermuda and the Bye-Laws:
 - 3.1. the Company may declare and distribute dividends to the Shareholders;
 - 3.2. yet, any such declaration and payment of dividends shall remain to be determined at the sole discretion of the Board.
4. Subject to the Bye-Laws and all laws and regulations applicable to the Company,
 - 4.1. the Company may declare dividends in any currency in general meetings but no dividends shall exceed the amount recommended by the Board;
 - 4.2. the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company.
5. This Dividend Policy and the declaration and/or payment of dividends under this Dividend Policy are subject to the Board's continuing determination that this Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all laws and regulations applicable to the Group.
6. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy.



REPORT OF THE DIRECTORS

7. The Board will continually review this Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

On behalf of the Board

Li Shaohua

Director

Hong Kong, 28 March 2024

INDEPENDENT AUDITOR'S REPORT



天健國際會計師事務所有限公司

Confucius International CPA Limited

Certified Public Accountants

香港灣仔莊士敦道181号大有大厦1501-08室
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181 Johnston Road, Wanchai, Hong Kong
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TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 46 to 105, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting information and other explanatory 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 (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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.

KEY AUDIT MATTERS *(Cont'd)*

Valuation of inventories

Key audit matter

We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole.

As disclosed in note 17 to the consolidated financial statements, the Group has inventories of HK\$21,400,000 as at 31 December 2023. Net realisable value ("NRV") represents the latest selling prices for inventories less the estimated costs to completion and the estimated costs necessary to make the sale. The management carried out a review of carrying value of the inventories at the end of the reporting period. There is a significant degree of judgement by the management in determining the NRV of the inventories.

How our audit addressed the key audit matter

Our audit procedures in relation to assessing the appropriateness of the carrying value of the inventories included:

- testing the operating effectiveness of internal controls associated with the existence and conditions of inventories;
- obtaining an understanding of management's estimation on the NRV of inventories and evaluating the accuracy of the allowance estimations made by the management;
- discussing with management and assessing the bases of management's estimations of subsequent selling price, costs to completion and costs necessary to make the sale;
- reviewing a list of obsolete and slow-moving inventories and assessing the allowance made on obsolete and slow-moving items; and
- verifying the value of a sample of inventories to confirm that the inventories were held at the lower of cost and NRV.

Based on our procedures described, we found the estimations of management in relation to valuation of inventories were supportable by available evidence.

KEY AUDIT MATTERS *(Cont'd)*

Allowance for expected credit losses ("ECL") of trade receivables

Key audit matter

We identified the allowance for ECL of trade receivables as a key audit matter due to significant management judgement involved in the identification and measurement of the allowance for ECL.

As disclosed in note 18 to the consolidated financial statements, the Group has trade receivables of HK\$16,912,000, net of an allowance for ECL of HK\$796,000 (2022: HK\$Nil) as at 31 December 2023.

At the end of each reporting date, the management assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of a default occurring over the expected life between the reporting date and the date of initial recognition. The management considers reasonably supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

How our audit addressed the key audit matter

Our procedures in relation to valuation of trade receivables included:

- inquiring the management to understand the approach applied on ECL model of trade receivables;
- understanding key controls on how the management estimates impairment for trade receivables;
- assessing the appropriateness of the ECL provisioning methodology; examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including background information of the customers, past settlement records of the customers, concentration risk of customers and the Group's actual loss experience;
- evaluating the management's assessment on the individual significant trade receivables that were past due as at 31 December 2023 with reference to supporting evidence such as repayment history of the customers; and
- checking the subsequent settlement of trade receivable after the year end date.

We found that the estimation and judgement made by management in respect of the allowance for ECL of trade receivables were supportable by the credible evidence.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

Confucius International CPA Limited

Certified Public Accountants

Chan Lap Chi

Practising Certificate Number: P04084

Hong Kong, 28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	5 & 6	155,905	177,458
Cost of sales		<u>(105,707)</u>	<u>(115,953)</u>
Gross profit		50,198	61,505
Other income, gains and losses, net	7	3,330	6,600
Distribution costs		(2,460)	(1,984)
Administrative expenses		(77,982)	(71,201)
Finance costs	8	<u>(692)</u>	<u>(738)</u>
Loss before tax	9	(27,606)	(5,818)
Income tax expense	11	<u>(2,972)</u>	<u>(153)</u>
Loss for the year		<u>(30,578)</u>	<u>(5,971)</u>
Other comprehensive income (expense):			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>1,052</u>	<u>(3,515)</u>
Other comprehensive income (expense) for the year, net of tax		<u>1,052</u>	<u>(3,515)</u>
Total comprehensive expense for the year		<u>(29,526)</u>	<u>(9,486)</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(30,532)	(6,825)
Non-controlling interests		<u>(46)</u>	<u>854</u>
Loss for the year		<u>(30,578)</u>	<u>(5,971)</u>
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(29,351)	(9,803)
Non-controlling interests		<u>(175)</u>	<u>317</u>
Total comprehensive expense for the year		<u>(29,526)</u>	<u>(9,486)</u>
Loss per share	13		
Basic (HK cents per share)		<u>(9.34)</u>	<u>(2.09)</u>
Diluted (HK cents per share)		<u>(9.34)</u>	<u>(2.09)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	15,536	16,239
Right-of-use assets	15	10,934	12,226
Deferred tax assets	16	—	2,130
		<u>26,470</u>	<u>30,595</u>
CURRENT ASSETS			
Inventories	17	21,400	14,916
Trade and other receivables	18	21,064	37,478
Financial assets at fair value through profit or loss	19	3,075	5,299
Tax recoverable		898	2,052
Bank balances and cash	20	42,986	67,298
		<u>89,423</u>	<u>127,043</u>
CURRENT LIABILITIES			
Trade and other payables	21	28,992	37,680
Lease liabilities	22	461	1,151
Tax liabilities		87	158
		<u>29,540</u>	<u>38,989</u>
NET CURRENT ASSETS		<u>59,883</u>	<u>88,054</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>86,353</u>	<u>118,649</u>
NON-CURRENT LIABILITY			
Lease liabilities	22	11,692	12,110
NET ASSETS		<u><u>74,661</u></u>	<u><u>106,539</u></u>



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Note	2023 HK\$'000	2022 HK\$'000
CAPITAL AND RESERVES			
Share capital	23	32,692	32,692
Reserves		<u>29,705</u>	<u>59,056</u>
Equity attributable to owners of the Company		62,397	91,748
Non-controlling interests		<u>12,264</u>	<u>14,791</u>
TOTAL EQUITY		<u>74,661</u>	<u>106,539</u>

The consolidated financial statements on pages 46 to 105 were approved and authorised for issue by the Board of Directors on 28 March 2024 and are signed on its behalf by:

Mr. Poon Wai Yip, Albert
Director

Mr. Li Shaohua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translations reserve HK\$'000	Accumulated losses HK\$'000			
At 1 January 2022	32,692	118,895	10,337	771	(61,144)	101,551	16,659	118,210
(Loss) profit for the year	—	—	—	—	(6,825)	(6,825)	854	(5,971)
Other comprehensive expense for the year:								
Exchange differences arising on translation of foreign operations	—	—	—	(2,978)	—	(2,978)	(537)	(3,515)
Total comprehensive (expense) income for the year	—	—	—	(2,978)	(6,825)	(9,803)	317	(9,486)
Dividends paid to non-controlling interest	—	—	—	—	—	—	(2,185)	(2,185)
At 31 December 2022	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>(2,207)</u>	<u>(67,969)</u>	<u>91,748</u>	<u>14,791</u>	<u>106,539</u>
At 1 January 2023	32,692	118,895	10,337	(2,207)	(67,969)	91,748	14,791	106,539
Loss for the year	—	—	—	—	(30,532)	(30,532)	(46)	(30,578)
Other comprehensive income (expense) for the year:								
Exchange differences arising on translation of foreign operations	—	—	—	1,181	—	1,181	(129)	1,052
Total comprehensive (expense) income for the year	—	—	—	1,181	(30,532)	(29,351)	(175)	(29,526)
Dividends paid to non-controlling interests	—	—	—	—	—	—	(2,352)	(2,352)
At 31 December 2023	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>(1,026)</u>	<u>(98,501)</u>	<u>62,397</u>	<u>12,264</u>	<u>74,661</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
OPERATING ACTIVITIES			
Loss before tax		(27,606)	(5,818)
Adjustments for:			
Interest expenses	8	692	738
Interest income	7	(321)	(84)
Depreciation of property, plant and equipment	14	4,725	5,030
Depreciation of right-of-use assets	15	1,375	1,388
Loss (gain) on disposal of property, plant and equipment	7	160	(10)
Dividend income from financial assets at fair value through profit or loss ("FVTPL")	7	(26)	(77)
Property, plant and equipment written off	14	—	21
Loss on disposal of financial assets at FVTPL	7	282	576
Expected credit loss ("ECL") on trade receivables	7	796	—
Fair value loss on financial assets at FVTPL	7	281	279
Gain from derecognition of other payables	7	—	(3,320)
Operating cash flows before movements in working capital		(19,642)	(1,277)
Decrease (increase) in trade and other receivables		15,618	(4,811)
(Increase) decrease in inventories		(6,484)	31
(Decrease) increase in trade payables, accrued expenses and contract liabilities		(8,688)	16,647
Cash (used in) generated from operations		(19,196)	10,590
Hong Kong Profits Tax refunded (paid), net		1,052	(747)
People's Republic of China Enterprise Income Tax paid, net		(807)	(60)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		(18,951)	9,783

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
INVESTING ACTIVITIES			
Interest received		321	84
Purchase of property, plant and equipment	14	(3,403)	(3,657)
Proceeds from disposal of property, plant and equipment		30	30
Proceeds from disposal of financial assets at FVTPL		19,605	22,011
Purchase of financial assets at FVTPL		(17,944)	(17,649)
Dividend received from financial assets at FVTPL		26	77
		<u> </u>	<u> </u>
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(1,365)	896
FINANCING ACTIVITIES			
Dividend paid to non-controlling interest		(2,352)	(2,185)
Lease payments for right-of-use assets	30	(1,883)	(1,896)
		<u> </u>	<u> </u>
NET CASH USED IN FINANCING ACTIVITIES		(4,235)	(4,081)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(24,551)	6,598
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		67,298	61,383
Effect of change in foreign exchange rates		239	(683)
		<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		42,986	67,298
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		42,986	67,298
		<u> </u>	<u> </u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and the principal place of business is 15/F, Sun Hing Industrial Building, 46 Wong Chuk Hang Road, Aberdeen, Hong Kong.

The principal activities of the Company and its subsidiaries (the “Group”) are the manufacture and sale of novelties, decoration and toy products.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

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

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

In the current year, the Group has adopted the following new and amendments (the “New HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective for the Group’s financial year beginning on 1 January 2023:

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

The adoption of the New HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

New and amendments to HKFRS in issue but not yet effective

The Group has not early applied the following New HKFRSs that have been issued but are not yet effective. The management of the Group anticipates that the application of these new and amendments to HKFRSs will have no material impact on the Group’s consolidated financial statements in the foreseeable future.

HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback ¹
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020) ¹
HKAS 1 (Amendments)	Non-current Liabilities with Covenants ¹
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements ¹
HKAS 21 (Amendments)	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective date to be determined.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New HKICPA guidance on the accounting implications of the abolition of the MPF — LSP offsetting mechanism

In June 2022, the Government of the Hong Kong SAR (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”).

Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“MPF”) scheme to reduce the long service payment (“LSP”) in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published the captioned accounting guidance relating to the abolition of the offsetting mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has applied the above HKICPA guidance and changed its accounting policy in connection with its LSP liability.

The directors of the Company anticipate that the abolition of the offsetting mechanism did not have a material impact on the Group’s profit or loss for the year ended 31 December 2022 and 2023 and the Group’s and the Company’s financial position as at 31 December 2022 and 2023. In light of the immaterial impact, the Group did not apply the change in its accounting policy retrospectively.

3. MATERIAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Basis of consolidation *(Cont'd)*

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

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

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

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

Investment in subsidiaries

Investments in subsidiaries presented in the Company's statement of financial position included in note 31 to the consolidated financial statements are stated at cost less identified impairment loss.

Revenue from contracts with customers

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (Cont'd)

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

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

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

Revenue recognition

- Revenue from sale of novelties, decoration and toy products are recognised at a point in time when the goods are delivered to and have been accepted by customers.
- Rental income from investment property under operating lease are recognised on a straight-line basis over the terms of the relevant leases.
- Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate.

Property, plant and equipment

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

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

Leasehold land and buildings	3% or over the remaining leases term
Leasehold improvement on factory premises	5–33%
Furniture, fixtures and office equipment	15–33%
Plant, machinery and moulds	10–20%
Motor vehicles	25–33%

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

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Impairment of tangible and right-of-use assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and right-of-use assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Leasing

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as a lessee (Cont'd)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises, that has a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

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

Refundable rental deposits

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

Lease liabilities

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

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Leasing *(Cont'd)*

The Group as a lessee (Cont'd)

Lease liabilities (Cont'd)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Leasing *(Cont'd)*

The Group as a lessee (Cont'd)

Lease modifications (Cont'd)

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

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

Foreign currencies

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

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

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

Borrowing costs

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

Retirement benefit costs

Payments to defined contribution retirement benefit plan are recognised as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Government grants

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

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

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

Taxation

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

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

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

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

Current and deferred tax are recognised in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contract with Customers* ("HKFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Effective Interest method

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (Cont'd)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses, net" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, rental, utility and other deposits, cash deposit in broker's account, sundry debtors and others, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balance.

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

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets *(Cont'd)*

(i) Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 120 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (Cont'd)

(v) Measurement and recognition of ECL

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instrument

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

Financial liabilities

Financial liabilities (including trade payables, accrued salary, bonus and commission, accrued expenses and others, lease liabilities and amount due to a director of subsidiaries) are subsequently measured at amortised cost using the effective interest method.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Derecognition

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 assets 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 recognised 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.

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

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

Provisions

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

The amounts recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Related parties

A related party is a person or an entity that is related to the Group.

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group and the Group's parent.

3. MATERIAL ACCOUNTING POLICIES *(Cont'd)*

Related parties *(Cont'd)*

(b) An entity is related to the Group if any of the following conditions applies:

- (i) the entities and the Group are the member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) the person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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.

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

Depreciation of property, plant and equipment

The Group's carrying amounts of property, plant and equipment as at 31 December 2023 was approximately HK\$15,536,000 (2022: HK\$16,239,000). The Group depreciates the property, plant and equipment, using the straight-line method, at the rates of 3% to 33% per annum, commencing from the date the asset is placed into productive use. The estimated useful life that the Group places the assets into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Provision of ECL for trade receivables

The allowance for ECL on trade receivables is based on the Group's historical default rates taking into consideration forward-looking information available that is reasonable and supportable without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The management of the Company has assessed the ECL allowance of all trade receivables and an loss allowance for ECL of HK\$796,000 was recognised during the year (2022: HK\$Nil).

The information about the loss allowance for ECLs and the Group's impairment loss regarding trade receivables are disclosed in note 18.

Impairment on inventories

The management of the Group reviews an aging analysis of the inventories at each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides impairment on obsolete and slow-moving items. The management estimates the net realisable value for the finished goods and work-in progress based primarily on the latest invoice prices and current market conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to external customers, less returns and trade discounts during the year.

	2023 HK\$'000	2022 HK\$'000
Revenue from contracts with customers recognised at a point in time under HKFRS 15:		
Novelties and decoration products	3,856	6,563
Toy products	152,049	170,895
	155,905	177,458

6. SEGMENTS REPORTING

For management purposes, the Group is currently organised into two operating segments, namely the manufacture and sale of novelties and decoration products and the manufacture and sale of toy products.

The following is an analysis of the Group's revenue and results by reportable segments:

2023

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	3,856	152,049	155,905
RESULT			
Segment results	(3,766)	(16,714)	(20,480)
Loss on disposal of financial assets at FVTPL			(282)
Fair value loss on financial assets at FVTPL			(281)
Unallocated corporate expenses			(5,871)
Finance costs			(692)
Loss before tax			(27,606)
Income tax expense			(2,972)
Loss for the year			(30,578)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. SEGMENTS REPORTING (Cont'd)

2023 (Cont'd)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	8,515	103,828	112,343
Unallocated corporate assets			<u>3,550</u>
Consolidated total assets			<u><u>115,893</u></u>
LIABILITIES			
Segment liabilities	(5,760)	(34,940)	(40,700)
Unallocated corporate liabilities			<u>(532)</u>
Consolidated total liabilities			<u><u>(41,232)</u></u>

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	—	3,403	—	3,403
Depreciation of property, plant and equipment	—	4,633	92	4,725
Depreciation of right-of-use assets	<u>212</u>	<u>329</u>	<u>834</u>	<u>1,375</u>

6. SEGMENTS REPORTING (Cont'd)

2022

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
REVENUE			
External sales and total revenue	<u>6,563</u>	<u>170,895</u>	<u>177,458</u>
RESULT			
Segment results	<u>(6,273)</u>	<u>6,988</u>	715
Loss on disposal of financial assets at FVTPL			(576)
Fair value loss on financial assets at FVTPL			(279)
Unallocated corporate expenses			(4,940)
Finance costs			<u>(738)</u>
Loss before tax			(5,818)
Income tax expense			<u>(153)</u>
Loss for the year			<u>(5,971)</u>
	Novelties and decoration products HK\$'000	Toy products HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	12,218	133,700	145,918
Unallocated corporate assets			<u>11,720</u>
Consolidated total assets			<u>157,638</u>
LIABILITIES			
Segment liabilities	6,129	44,240	50,369
Unallocated corporate liabilities			<u>730</u>
Consolidated total liabilities			<u>51,099</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. SEGMENTS REPORTING (Cont'd)

2022 (Cont'd)

	Novelties and decoration products HK\$'000	Toy products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	—	3,657	—	3,657
Depreciation of property, plant and equipment	—	4,807	223	5,030
Depreciation of right-of-use assets	<u>212</u>	<u>329</u>	<u>847</u>	<u>1,388</u>

Segment result represents the result produced by each segment without allocation of central administration costs including directors' salaries, other income, finance costs, gain/loss on disposal of financial assets at FVTPL, fair value gain/loss on financial assets at FVTPL and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

- all assets are allocated to operating segments other than certain financial assets, which are held for central administrative purpose. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to operating segments other than certain financial liabilities incurred for central administrative purpose. Liabilities for segments which are jointly liable are allocated in proportion to segment assets.

6. SEGMENTS REPORTING (Cont'd)

Geographical Information

The Group's revenue from external customers by location of customers are detailed below:

	2023	2022
	HK\$'000	HK\$'000
Hong Kong	14,675	14,060
Europe	12,133	15,986
United States of America	8,115	20,531
Asia (other than Hong Kong)	120,665	126,621
Others	317	260
	<u>155,905</u>	<u>177,458</u>

The following is an analysis of the carrying amount of segment assets and additions to non-current assets, analysed by the geographical area in where the assets are located:

	Carrying amount of segment assets		Additions to non-current assets	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	49,086	86,200	433	—
People's Republic of China ("PRC")	66,807	71,438	3,053	3,657
	<u>115,893</u>	<u>157,638</u>	<u>3,486</u>	<u>3,657</u>

Note: Non-current assets excluded deferred tax assets and right-of-use-assets.

Information about major customers

Included in revenue arising from sales of toy products of approximately HK\$152,049,000 (2022: HK\$170,895,000) is revenue of approximately HK\$140,514,000 (2022: HK\$158,772,000) arising from sales to the Group's largest customer, representing approximately 90% (2022: 90%) of the total revenue. No other single customer contribute 10% or more to the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. OTHER INCOME, GAINS AND LOSSES, NET

	2023 HK\$'000	2022 HK\$'000
Interest income from		
— bank deposits	251	84
— financial assets at FVTPL	70	—
Gain from derecognition of other payables	—	3,320
Scrap sales (Note)	248	577
(Loss) gain on disposal of property, plant and equipment	(160)	10
Property, plant and equipment written off	—	(21)
ECL on trade receivables (Note 18)	(796)	—
Loss on disposal of financial assets at FVTPL	(282)	(576)
Fair value loss on financial assets at FVTPL	(281)	(279)
Net foreign exchange gain	1,880	662
Dividend income from financial assets at FVTPL	26	77
Tooling income (Note)	1,065	1,238
Transportation income (Note)	134	82
Subsidies income from the PRC Government	295	643
Laboratory testing income (Note)	657	295
Others	223	488
	<u>3,330</u>	<u>6,600</u>

Note: These income are the revenue from contracts with customers recognised at a point in time under HKFRS 15.

8. FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Effective interest expenses on lease liabilities	<u>692</u>	<u>738</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

9. LOSS BEFORE TAX

	2023 HK\$'000	2022 HK\$'000
Loss before tax has been arrived at after charging (crediting):		
Auditor's remuneration	800	890
Cost of inventories recognised as an expense, including impairment on inventories	25,537	35,896
Depreciation of property, plant and equipment	4,725	5,030
Depreciation of right-of-use assets	1,375	1,388
ECL on trade receivables	796	—
Short-term operating lease rentals in respect of rented premises	558	636
Staff costs (including Directors' emoluments)		
— Salaries, allowances and retirement benefits scheme contributions	113,933	107,196
— Government grants under Employment Support Scheme	—	(512)
	<u>113,933</u>	<u>107,196</u>

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the Directors in 2023 were as follows:

Emoluments	Other emoluments				Total HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive Directors⁽ⁱ⁾					
Li Shaohua	180	—	—	—	180
Poon Wai Yip, Albert	—	3,236	13,907	18	17,161
Fang Guohong	96	—	—	—	96
Independent Non-executive Directors⁽ⁱⁱ⁾					
Lau Shu Yan	180	—	—	—	180
Xie Xiaohong	180	—	—	—	180
Geng Jianhua	180	—	—	—	180
Total for 2023	<u>816</u>	<u>3,236</u>	<u>13,907</u>	<u>18</u>	<u>17,977</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

The emoluments paid or payable to each of the Directors in 2022 were as follows:

Emoluments	Fees HK\$'000	Salaries and other benefits HK\$'000	Other emoluments		Total HK\$'000
			Bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive Directors⁽ⁱ⁾					
Li Shaohua	452	—	—	—	452
Poon Wai Yip, Albert	—	2,946	18,500	18	21,464
Independent Non-executive Directors⁽ⁱⁱ⁾					
Lau Shu Yan	180	—	—	—	180
Xie Xiaohong	180	—	—	—	180
Geng Jianhua	180	—	—	—	180
Total for 2022	<u>992</u>	<u>2,946</u>	<u>18,500</u>	<u>18</u>	<u>22,456</u>

Notes:

- (i) Salary paid to an Executive Director is generally an emolument paid or payable in respect of that person's services in connection with the management of the affairs of the Company or its subsidiary undertakings.
- (ii) Salary paid to an Independent Non-executive Director is generally an emolument paid or payable in respect of that person's services in connection with the management of the affairs of the Company.

(b) Directors' retirement benefits and termination benefits

During the year ended 31 December 2023, save as disclosed above, there were no retirement benefits or termination benefits paid to the directors (2022: HK\$Nil).

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

During the year ended 31 December 2023, no consideration was paid for making available the services of the directors of the Company (2022: HK\$Nil).

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

During the year ended 31 December 2023, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company in favour of directors, controlled bodies corporate by and connected entities with such directors (2022: Nil).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)**(e) Directors' material interests in transactions, arrangements or contracts**

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2022: Nil).

(f) Waiver of emoluments

No director has waived or agreed to waive any emoluments during the year ended 31 December 2023 (2022: HK\$Nil).

(g) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, one (2022: one) was director of the Company, whose emoluments were set out in (a) above. The aggregate emoluments of the remaining four (2022: four) individuals* were as follows:

	2023	2022
	HK\$'000	HK\$'000
Salaries and other benefits	14,015	9,854
Bonuses	8,408	660
Retirement benefit schemes contributions	54	54
	22,477	10,568

* Three (2022: three) of the remaining four individuals were close family members of an Executive Director of the Company.

Their emoluments were within the following bands:

	2023	2022
	Number of employees	Number of employees
HK\$1,000,001–HK\$1,500,000	—	2
HK\$3,500,001–HK\$4,000,000	2	1
HK\$4,000,001–HK\$4,500,000	—	1
HK\$7,000,001–HK\$7,500,000	1	—
HK\$8,000,001–HK\$8,500,000	1	—
	4	4

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For the year ended 31 December 2023

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(h) Inducement to join the Group

During the year ended 31 December 2023, no emoluments were paid by the Group to any of the five highest paid individuals and/or any directors of the Company as an inducement to join or upon joining the Group (2022: HK\$Nil) or as compensation for loss of office (2022: HK\$Nil).

11. INCOME TAX EXPENSE

	2023 HK\$'000	2022 HK\$'000
Current tax:		
Hong Kong Profits Tax	113	—
PRC Enterprise Income Tax	135	158
	<u>248</u>	<u>158</u>
(Over) under provision in prior years:		
Hong Kong Profits Tax	(10)	(10)
PRC Enterprise Income Tax	604	5
	<u>594</u>	<u>(5)</u>
Deferred tax (Note 16)		
Current year	2,130	—
	<u>2,972</u>	<u>153</u>

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25% (2022: 8.25%), and profits above HK\$2 million will be taxed at 16.5% (2022: 16.5%). The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2022: 16.5%). Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% (2022: 8.25%) on the first HK\$2 million of the estimated assessable profits and at 16.5% (2022: 16.5%) on the estimated assessable profits above HK\$2 million.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2022: 25%).

11. INCOME TAX EXPENSE (Cont'd)

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

	2023 HK\$'000	2022 HK\$'000
Loss before tax	<u>(27,606)</u>	<u>(5,818)</u>
Tax at Hong Kong Profits Tax rate of 16.5%	(4,555)	(960)
Tax effect of income not taxable for tax purposes	(90)	(1,843)
Tax effect of expenses not deductible for tax purposes	2,098	1,921
Tax effect on temporary differences not recognised	(106)	(94)
Tax effect on tax losses not recognised	3,224	2,089
Tax effect on tax reduction	—	(923)
Utilisation of tax losses not previously recognised	(127)	(290)
Under (over) provision in respect of prior years	594	(5)
Effect of different tax rates of subsidiaries operating in the PRC	(67)	258
Effect of profit subject to 8.25% under two-tiered tax regime	(129)	—
Reversal of deferred tax assets (note 16)	<u>2,130</u>	<u>—</u>
Tax charge for the year	<u>2,972</u>	<u>153</u>

12. DIVIDENDS

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

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the year attributable to owners of the Company of approximately HK\$30,532,000 (2022: HK\$6,825,000) and the number of ordinary shares in issue of 326,923,607 (2022: 326,923,607).

Diluted loss per share for the years ended 31 December 2023 and 2022 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement on factory premises HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant, machinery and moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST					
At 1 January 2022	8,664	12,914	75,597	4,167	101,342
Additions	865	611	1,878	303	3,657
Disposals/written off	—	(3,045)	(3,238)	(49)	(6,332)
Exchange alignment	(790)	(250)	(3,856)	(135)	(5,031)
At 31 December 2022 and 1 January 2023	8,739	10,230	70,381	4,286	93,636
Additions	—	172	2,881	350	3,403
Disposals/written off	—	—	(561)	—	(561)
Exchange alignment	(214)	(99)	(265)	(40)	(618)
At 31 December 2023	8,525	10,303	72,436	4,596	95,860
DEPRECIATION					
At 1 January 2022	5,679	10,428	61,320	3,422	80,849
Provided for the year	1,446	430	2,884	270	5,030
Eliminated upon disposals/ written off	—	(3,002)	(3,243)	(46)	(6,291)
Exchange alignment	(495)	(36)	(1,547)	(113)	(2,191)
At 31 December 2022 and 1 January 2023	6,630	7,820	59,414	3,533	77,397
Provided for the year	1,451	395	2,612	267	4,725
Eliminated upon disposals/ written off	—	—	(371)	—	(371)
Exchange alignment	(162)	(86)	(1,219)	40	(1,427)
At 31 December 2023	7,919	8,129	60,436	3,840	80,324
CARRYING VALUES					
At 31 December 2023	606	2,174	12,000	756	15,536
At 31 December 2022	2,109	2,410	10,967	753	16,239

15. RIGHT-OF-USE ASSETS

	Land and building HK\$'000
COST	
At 1 January 2022, 31 December 2022 and 1 January 2023	16,018
Addition	83
Lease expiration	<u>(108)</u>
At 31 December 2023	<u>15,993</u>
DEPRECIATION	
At 1 January 2022	2,404
Provided for the year	<u>1,388</u>
At 31 December 2022 and 1 January 2023	<u>3,792</u>
Provided for the year	<u>1,375</u>
Eliminated upon lease expiration	<u>(108)</u>
At 31 December 2023	<u>5,059</u>
CARRYING VALUES	
At 31 December 2023	<u><u>10,934</u></u>
At 31 December 2022	<u><u>12,226</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2022, 31 December 2022 and 1 January 2023	34	(2,164)	(2,130)
(Credit) charge to profit or loss for the year (note 11)	<u>(34)</u>	<u>2,164</u>	<u>2,130</u>
At 31 December 2023	<u>—</u>	<u>—</u>	<u>—</u>

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of reporting period, the Group has unused tax losses of approximately HK\$207,417,000 (2022: HK\$184,502,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of Nil (2022: HK\$13,112,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$207,417,000 (2022: HK\$171,390,000) due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

17. INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials	4,884	5,243
Work in progress	2,329	1,381
Finished goods	<u>14,187</u>	<u>8,292</u>
	<u>21,400</u>	<u>14,916</u>

Impairment on inventories of HK\$237,000 (2022: HK\$11,000) was recognised as an expense during the year ended 31 December 2023 and included in the cost of sales in the consolidated statement of profit or loss and other comprehensive income.

18. TRADE AND OTHER RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade receivables	17,708	30,597
Less: ECL on trade receivables	<u>(796)</u>	<u>—</u>
	<u>16,912</u>	<u>30,597</u>
Other receivables:		
Prepayment*	2,432	5,073
Rental, utility and other deposits	543	453
Cash deposit in broker's account	7	361
Sundry debtors and others (Note)	<u>1,170</u>	<u>994</u>
	<u>4,152</u>	<u>6,881</u>
	<u>21,064</u>	<u>37,478</u>

* Included prepaid rentals of HK\$1,973,000 (2022: HK\$4,340,000) paid to a third party landlord for a quarter provided to a director of a subsidiary covering a 2-year period ending on 31 October 2024.

Note: The balances mainly include value added tax refundable on export sales and social insurance paid on behalf of employees in the PRC.

The Group allows an average credit period of 60 days to its trade debtors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

18. TRADE AND OTHER RECEIVABLES (Cont'd)

The following is an aging analysis of the Group's trade receivables, presented based on invoice dates and net of allowance for ECL at the end of the reporting period:

	2023 HK\$'000	2022 HK\$'000
0–60 days	15,556	28,320
61–90 days	1,259	1,465
91–120 days	—	425
Over 120 days	97	387
	<u>16,912</u>	<u>30,597</u>

The following is an aging analysis of the Group's trade receivables that were past due but not impaired at the end of the reporting period:

	2023 HK\$'000	2022 HK\$'000
Overdue by:		
0–60 days	1,259	1,890
61–90 days	—	296
91–120 days	97	91
	<u>1,356</u>	<u>2,277</u>

The movements in the allowance for ECL on trade and other receivables:

	2023 HK\$'000	2022 HK\$'000
Balance at the beginning of the year	—	101
Allowance for ECL recognised during the year (Note 7)	796	—
Allowance for ECL written off during the year	—	(101)
	<u>796</u>	<u>—</u>

In determining the recoverability of a trade and other receivable, the Group considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the end of the reporting period.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL:

	2023	2022
	HK\$'000	HK\$'000
Listed securities held for trading:		
— Equity securities listed in Hong Kong	970	2,638
— Debt securities listed outside Hong Kong	55	205
	1,025	2,843
Unlisted managed funds, at fair value (Note)	—	2,456
Unlisted equity-link notes	2,050	—
	3,075	5,299
Analysed for reporting purposes as:		
Current assets	3,075	5,299

Note: Managed funds

The Group acquired certain managed funds for trading purposes. These managed funds are issued by financial institutions with high credit ratings and have underlying investments in both listed debt and equity securities around the world.

20. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.001% to 1.00% per annum (2022: 0.001% to 0.375% per annum) with an original maturity of three months or less. The fair value of these assets at 31 December 2023 approximates to the corresponding carrying amounts.

Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

21. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables, presented based on invoice dates at the end of reporting period:

	2023 HK\$'000	2022 HK\$'000
Trade payables:		
0–60 days	8,204	7,819
61–90 days	10	1,393
91–120 days	113	619
Over 120 days	425	1,035
	<u>8,752</u>	<u>10,866</u>
Other payables:		
Accrued salary, bonus and commission	13,861	21,887
Contract liabilities (Note)	3,744	2,375
Accrued expenses and others	2,635	2,552
	<u>20,240</u>	<u>26,814</u>
	<u>28,992</u>	<u>37,680</u>

The average credit period on purchases of goods is 45 to 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

Note: The contract liabilities primarily relate to the deposits or payments received in advance from customer for novelties and decoration products and toys products.

Movements of contract liabilities are as follows:

	2023 HK\$'000	2022 HK\$'000
At 1 January	2,375	1,145
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities as the beginning of the period	(1,974)	(434)
Increase in contract liabilities during the year	3,343	1,664
At 31 December	<u>3,744</u>	<u>2,375</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

22. LEASE LIABILITIES

Analysed for reporting purposes as:

	2023 HK\$'000	2022 HK\$'000
Current liabilities	461	1,151
Non-current liabilities	11,692	12,110
	<u>12,153</u>	<u>13,261</u>

The lease terms ranged from 1 to 20 years (2022: 1 to 21 years). During the year ended 31 December 2023, the obligations under operating leases carried effective interest rates ranged from 3.88% to 5.41% per annum (2022: 3% to 5.41% per annum).

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2023 HK\$'000	31 December 2022 HK\$'000	31 December 2023 HK\$'000	31 December 2022 HK\$'000
Amounts payable under operating leases				
Within one year	1,114	1,840	461	1,151
More than one year but less than two years	1,000	1,070	368	419
More than two years but less than five years	3,000	3,000	1,226	1,163
More than five years	15,000	16,000	10,098	10,528
	20,114	21,910	12,153	13,261
Less: future total finance charges	(7,961)	(8,649)	—	—
Present value of obligation under operating leases	<u>12,153</u>	<u>13,261</u>	<u>12,153</u>	<u>13,261</u>
Less: carrying amounts due for settlement within twelve months			(461)	(1,151)
Amount due for settlement after twelve months			<u>11,692</u>	<u>12,110</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

23. SHARE CAPITAL

	Number of shares		Share capital	
	2023 '000	2022 '000	2023 HK\$'000	2022 HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each	<u>700,000</u>	<u>700,000</u>	<u>70,000</u>	<u>70,000</u>
Issued and fully paid				
At beginning and end of year	<u>326,924</u>	<u>326,924</u>	<u>32,692</u>	<u>32,692</u>

24. OPERATING LEASES

The Group as lessee

	2023 HK\$'000	2022 HK\$'000
Lease payments made under short-term operating leases during the year		
Rented premises	<u>558</u>	<u>636</u>

At 31 December, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2023 HK\$'000	2022 HK\$'000
Within one year	<u>86</u>	<u>185</u>

Short-term operating lease payments represent rentals payable by the Group for certain of its offices.

Following the Group's adoption of HKFRS 16, the resulting impact on the consolidated statement of profit or loss and other comprehensive income and consolidated statements of cash flow is as follows:

	2023 HK\$'000	2022 HK\$'000
Depreciation of right-of-use assets (Note 9)	1,375	1,388
Effective interest on lease liabilities (Note 8)	692	738
Short-term operating lease rentals in respect of rented premises (Note 9)	558	636
Cash outflows in respect of lease liabilities (Note 30)	1,883	1,896
Carrying amounts of right-of-use assets (Note 15)	<u>10,934</u>	<u>12,226</u>

25. CONTINGENT LIABILITIES

Contingent liability in respect of legal claim

A subsidiary of the Group (the “Subsidiary”) has served a writ and claimed against three former employees of the Subsidiary (the “Defendants”). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants had filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK\$419,000 together with interest and costs. The Directors of the Company take the views that the amount of the Subsidiary’s claims against the Defendants well exceeded the Defendants’ claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

The claims have been pending since 2005.

26. RETIREMENT BENEFITS SCHEME

The Group participates in two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme had switched to the MPF Scheme and the remaining employees selected to remain in the ORSO Scheme. All new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The ORSO Scheme are funded by monthly contributions from both employees and the Group at the rate of 5% of the employee’s basic salary.

Employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

During the reporting period and at the end of reporting period, there was no forfeited contribution, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years.

The total cost recognised in the consolidated statement of profit or loss and other comprehensive income of approximately HK\$382,000 (2022: HK\$385,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

27. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year were as follows:

	2023	2022
	HK\$'000	HK\$'000
Short-term benefits	19,466	23,915
Post-employment benefits	54	58
	<u>19,520</u>	<u>23,973</u>

The remuneration of the Directors and key management personnel is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

28. FINANCIAL INSTRUMENTS BY CATEGORY

	2023	2022
	HK\$'000	HK\$'000
Financial assets		
Financial assets at FVTPL	3,075	5,299
Financial assets at amortised cost	61,618	99,703
	<u>64,693</u>	<u>105,002</u>
Financial liabilities		
Financial liabilities at amortised cost	37,401	48,566

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, rental, utility and other deposits, cash deposit in broker's account, sundry debtors and other, financial assets at FVTPL, bank balances and cash, trade payables, accrued salary, bonus and commission, accrued expenses and others and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk management

Several subsidiaries of the Company have sales and purchases denominated in foreign currency, which expose the Group to foreign currency risk. The Group currently has no foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

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

	Assets	Liabilities	Assets	Liabilities
	2023	2023	2022	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi ("RMB")	<u>11,011</u>	<u>9,776</u>	<u>21,382</u>	<u>13,556</u>

The following table shows the sensitivity analysis of a 5% increase/decrease in HK\$ against the RMB, the effect in the loss for the year is as follows:

	Impact of	Impact of
	RMB	RMB
	2023	2022
	HK\$'000	HK\$'000
Increase/decrease in loss for the year	<u>62</u>	<u>391</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Foreign currency risk management *(Cont'd)*

Besides, at the end of the reporting period, the Group has bank balances of approximately US\$4,194,000 (2022: US\$6,305,000), the sensitivity of fluctuation in USD exchange rate is considered insignificant as the Hong Kong dollars banknotes are pegged to US dollars at the rate of HK\$7.8 to US\$1.0.

Financial instruments price risk management

The Group's financial instruments price risk is primarily attributable to financial assets at FVTPL which were stated at fair values at the end of the reporting period. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

As at 31 December 2023, carrying values of financial assets at FVTPL which were stated at fair values amounted to approximately HK\$3,075,000 (2022: HK\$5,299,000). For sensitivity analysis purpose, a 15% change in the fair values of these financial instruments would result in the changes in results for the year of approximately HK\$461,000 (2022: HK\$795,000).

Liquidity risk management

Internally generated cash flow is the general source of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

The Group did not have any bank indebtedness.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)**Liquidity risk management** (Cont'd)

The maturity profiles of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

2023

	Weighted average interest rate	On demand or within 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade payables	—	8,752	—	—	—	8,752	8,752
Accruals and other payables	—	16,496	—	—	—	16,496	16,496
Lease liabilities	5.15%	1,114	1,000	3,000	15,000	20,114	12,153
		<u>26,362</u>	<u>1,000</u>	<u>3,000</u>	<u>15,000</u>	<u>45,362</u>	<u>37,401</u>

2022

	Weighted average interest rate	On demand or within 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade payables	—	10,866	—	—	—	10,866	10,866
Accruals and other payables	—	24,439	—	—	—	24,439	24,439
Lease liabilities	5.17%	1,840	1,070	3,000	16,000	21,910	13,261
		<u>37,145</u>	<u>1,070</u>	<u>3,000</u>	<u>16,000</u>	<u>57,215</u>	<u>48,566</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As all the interest bearing liabilities are on fixed interest rates, there is no significant interest rate risk within the Group.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2023 in relation to each class of financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debtor to ensure that adequate impairment losses are made for irrecoverable amounts. Assessments done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. In this regard, the management considers that the Group's credit risk is significantly reduced.

Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2023 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Fair value measurements of financial instruments (Cont'd)

	Fair value at	Fair value measurements as at			Fair value at	Fair value measurements as at		
	31 December	31 December 2023 categorised into			31 December	31 December 2022 categorised into		
	2023	Level 1	Level 2	Level 3	2022	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements								
Assets:								
Financial assets at FVTPL								
— listed equity securities	970	970	—	—	2,638	2,638	—	—
— listed debt securities	55	55	—	—	205	205	—	—
— unlisted managed funds	—	—	—	—	2,456	—	2,456	—
— unlisted equity-linked notes	2,050	—	2,050	—	—	—	—	—
	<u>3,075</u>	<u>1,025</u>	<u>2,050</u>	<u>—</u>	<u>5,299</u>	<u>2,843</u>	<u>2,456</u>	<u>—</u>

The fair values of listed equity securities and listed debt securities are based on quoted market prices in active markets at the end of the reporting period without any deduction for transaction costs.

The fair values of unlisted managed funds are based on prices quoted by financial institutions.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The Directors of the Company review the capital structure from time to time. As a part of this review, the Directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors of the Company, the Group will balance its overall capital structure through raising new bank borrowings and advance from a director of subsidiaries.

The management considers the gearing ratio at the year end was as follows:

	2023	2022
	HK\$'000	HK\$'000
Total interest-bearing loans	<u>—</u>	<u>—</u>
Equity attributable to owners of the Company	<u>62,397</u>	<u>91,748</u>
Gearing ratio	<u>0%</u>	<u>0%</u>

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For the year ended 31 December 2023

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities HK\$'000	Total HK\$'000
At 1 January 2022	14,419	14,419
Lease payments for right-of-use assets — principal portion	(1,158)	(1,158)
Lease payments for right-of-use assets — interest portion	(738)	(738)
	(1,896)	(1,896)
Interest expenses	738	738
	<u>738</u>	<u>738</u>
At 31 December 2022 and 1 January 2023	13,261	13,261
Lease payments for right-of-use assets — principal portion	(1,191)	(1,191)
Lease payments for right-of-use assets — interest portion	(692)	(692)
	(1,883)	(1,883)
Interest expenses	692	692
Addition of a new lease	83	83
	<u>775</u>	<u>775</u>
At 31 December 2023	<u>12,153</u>	<u>12,153</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/operation	Proportion of nominal value of issued/paid up capital held by the Company		Particulars of issued and paid up capital	Principal activities
		Directly	Indirectly		
Asia Rich (Far East) Limited	Hong Kong	—	79.6%	2 ordinary shares	Inactive
Benefit International Packing Materials Limited	Hong Kong	—	100%	10,000 ordinary shares	Trading of novelties and festival decorations
Benefit Packing Materials Limited	Hong Kong	—	75%	10,000 ordinary shares	Inactive
Beyond Growth International Limited	Hong Kong	—	79.6%	100,000 ordinary shares	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	—	79.6%	2 ordinary shares	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands ("BVI")/ Hong Kong	—	88%	87,618 ordinary shares of US\$1 each	Investment holding
Freshwater Trading Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	—	100%	2 ordinary shares	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	—	100%	10,000 ordinary shares	Securities investments and trading of paper bags
iTech Limited	Hong Kong	—	100%	2 ordinary shares	Investment holding
Leader Packaging Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive
Link Faith Company Limited	Hong Kong	—	100%	100,000 ordinary shares	Securities investments
Mars Technology Limited	BVI/Hong Kong	—	79.6%	10,000 ordinary shares of US\$1 each	Investment holding
New Genius Technology Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Onward Packing Manufacturer Limited	Hong Kong	—	100%	320,000 ordinary shares	Manufacture of novelties, festival decorations products
Perfectech Colour Centre Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech Enterprises (B.V.I.) Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Perfectech International (B.V.I.) Limited	BVI/Hong Kong	100%	—	50 ordinary shares of US\$1 each	Investment holding
Perfectech International Toys Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech International Limited	Hong Kong	—	100%	200 ordinary shares 80,000 non-voting deferred shares	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/operation	Proportion of nominal value of issued/paid up capital held by the Company		Particulars of issued and paid up capital	Principal activities
		Directly	Indirectly		
Perfectech International Manufacturing Limited	BVI/Hong Kong	—	100%	2,457,000 ordinary shares of US\$1 each	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	—	100%	450,000 ordinary shares	Inactive
Perfectech International Trading Limited	Hong Kong	—	100%	2 ordinary shares	Trading of novelties and festival decorations
Perfectech Paper Products Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Investment holding
Perfectech Plastic Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech Printing Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Investment holding
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	—	100%	10,000 ordinary shares	Investment holding
Shouji Mould Engineering Company Limited	Hong Kong	—	88%	2 ordinary shares	Distribution of mould
Shouji Tooling Factory Limited	Hong Kong	—	88%	1,000 ordinary shares	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI/Hong Kong	—	100%	1 ordinary share of US\$1 each	Investment holding
Yu-Me (H.K.) Limited	Hong Kong	—	100%	2 ordinary shares	Provision of management services
東青林模具塑膠(中山)有限公司 (Note 1)	The PRC	—	88%	HK\$35,000,000	Manufacture and sales of moulds
珠海市多發塑膠製品有限公司 (Note 1)	The PRC	—	100%	HK\$500,000	Manufacture and trading of novelties and festival decorations products
江門市安發塑膠製品有限公司 (Note 1)	The PRC	—	100%	HK\$600,000	Inactive
中山市威發塑膠製品有限公司 (Note 1)	The PRC	—	100%	RMB6,000,000	Manufacture of novelties and festival decorations products
中山市利發玩具有限公司 (Note 1)	The PRC	—	79.6%	RMB8,059,405	Manufacture and sales of toys

Note 1: These subsidiaries are wholly foreign-owned enterprises established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)**Details of non-wholly owned subsidiaries that have material non-controlling interests**

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

Name of subsidiary	Place of incorporation/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2023	2022	2023	2022	2023	2022
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fareastern Trade Limited	BVI/Hong Kong	12%	12%	757	591	5,091	5,473
Mars Technology Limited	BVI/Hong Kong	20.4%	20.4%	(803)	268	6,617	8,763

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Fareastern Trade Limited and its subsidiaries (Fareastern Group)

	2023 HK\$'000	2022 HK\$'000
Current assets	<u>291,602</u>	<u>274,560</u>
Non-current assets	<u>17,734</u>	<u>20,779</u>
Current liabilities	<u>(257,136)</u>	<u>(239,958)</u>
Non-current liabilities	<u>—</u>	<u>—</u>
Equity attributable to owners of the Company	<u>47,109</u>	<u>49,908</u>
Non-controlling interests	<u>5,091</u>	<u>5,473</u>
Revenue	<u>85,349</u>	<u>88,361</u>
Profit for the year attributable to:		
— owners of the Company	5,551	4,335
— the non-controlling interests	<u>757</u>	<u>591</u>
	<u>6,308</u>	<u>4,926</u>
Other comprehensive expense for the year attributable to:		
— owners of the Company	(497)	(2,216)
— the non-controlling interests	<u>(68)</u>	<u>(302)</u>
	<u>(565)</u>	<u>(2,518)</u>
Total comprehensive (expense) income for the year attributable to:		
— owners of the Company	5,054	2,119
— the non-controlling interests	<u>689</u>	<u>289</u>
	<u>5,743</u>	<u>2,408</u>
Dividend paid to the non-controlling interests	<u>(1,071)</u>	<u>(98)</u>
Net cash (outflow) inflow from operating activities	(1,872)	3,982
Net cash outflow from investing activities	(3,231)	(3,394)
Net cash outflow from financing activities	<u>(1,071)</u>	<u>(343)</u>
Net cash (outflow) inflow	<u>(6,174)</u>	<u>245</u>

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)**Mars Technology Limited and its subsidiaries (Mars Group)**

	2023 HK\$'000	2022 HK\$'000
Current assets	<u>198,989</u>	<u>217,186</u>
Non-current assets	<u>3,123</u>	<u>4,083</u>
Current liabilities	<u>(171,137)</u>	<u>(178,943)</u>
Non-current liabilities	<u>—</u>	<u>—</u>
Equity attributable to owners of the Company	<u>24,358</u>	<u>33,563</u>
Non-controlling interests	<u>6,617</u>	<u>8,763</u>
Revenue	<u>66,699</u>	<u>82,534</u>
(Loss) profit for the year attributable to:		
— owners of the Company	<u>(3,131)</u>	<u>1,044</u>
— the non-controlling interests	<u>(803)</u>	<u>268</u>
	<u>(3,934)</u>	<u>1,312</u>
Other comprehensive expense for the year attributable to:		
— owners of the Company	<u>(236)</u>	<u>(917)</u>
— the non-controlling interests	<u>(61)</u>	<u>(235)</u>
	<u>(297)</u>	<u>(1,152)</u>
Total comprehensive (expense) income for the year attributable to:		
— owners of the Company	<u>(3,367)</u>	<u>127</u>
— the non-controlling interests	<u>(864)</u>	<u>33</u>
	<u>(4,231)</u>	<u>160</u>
Dividend paid to the non-controlling interests	<u>(1,282)</u>	<u>(2,087)</u>
Net cash (outflow) inflow from operating activities	<u>(7,616)</u>	<u>12,860</u>
Net cash outflow from investing activities	<u>(143)</u>	<u>(262)</u>
Net cash outflow from financing activities	<u>(1,452)</u>	<u>(1,841)</u>
Net cash (outflow) inflow	<u>(9,211)</u>	<u>10,757</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2023 HK\$'000	2022 HK\$'000
NON-CURRENT ASSETS		
Unlisted investments in subsidiaries	32,060	32,060
Property, plant and equipment	4	9
	<u>32,064</u>	<u>32,069</u>
CURRENT ASSETS		
Prepayment and deposit	455	664
Amounts due from subsidiaries (Note a)	99,006	125,321
Bank balances and cash	936	1,467
	<u>100,397</u>	<u>127,452</u>
CURRENT LIABILITIES		
Accrued expenses	600	668
Amounts due to subsidiaries (Note a)	68,904	68,283
	<u>69,504</u>	<u>68,951</u>
NET CURRENT ASSETS	<u>30,893</u>	<u>58,501</u>
NET ASSETS	<u>62,957</u>	<u>90,570</u>
CAPITAL AND RESERVES		
Share capital (Note 23)	32,692	32,692
Reserves	30,265	57,878
TOTAL EQUITY	<u>62,957</u>	<u>90,570</u>

Note a: The amounts due from/to subsidiaries are unsecured, interest free and had no fixed term of repayment.

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 28 March 2024 and are signed on its behalf by:

Mr. Poon Wai Yip, Albert
Director

Mr. Li Shaohua
Director

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY*(Cont'd)***Movement in the Company's reserves**

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2022	32,692	118,895	10,337	(66,753)	95,171
Loss and total comprehensive expense for the year	—	—	—	(4,601)	(4,601)
At 31 December 2022 and 1 January 2023	32,692	118,895	10,337	(71,354)	90,570
Loss and total comprehensive expense for the year	—	—	—	(27,613)	(27,613)
At 31 December 2023	<u>32,692</u>	<u>118,895</u>	<u>10,337</u>	<u>(98,967)</u>	<u>62,957</u>

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				2023 HK\$'000
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	
Revenue	<u>141,936</u>	<u>162,041</u>	<u>186,211</u>	<u>177,458</u>	<u>155,905</u>
Loss before tax	(52,419)	(8,006)	(3,385)	(5,818)	(27,606)
Income tax expenses	<u>(4,838)</u>	<u>(5,123)</u>	<u>(1,482)</u>	<u>(153)</u>	<u>(2,972)</u>
Loss for the year	<u>(57,257)</u>	<u>(13,129)</u>	<u>(4,867)</u>	<u>(5,971)</u>	<u>(30,578)</u>
Attributable to:					
Owners of the Company	(55,038)	(15,801)	(6,520)	(6,825)	(30,532)
Non-controlling interests	<u>(2,219)</u>	<u>2,672</u>	<u>1,653</u>	<u>854</u>	<u>(46)</u>
Loss for the year	<u>(57,257)</u>	<u>(13,129)</u>	<u>(4,867)</u>	<u>(5,971)</u>	<u>(30,578)</u>

ASSETS AND LIABILITIES

	As at 31 December				2023 HK\$'000
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	
Total assets	222,963	220,817	157,045	157,638	115,893
Total liabilities	<u>(89,522)</u>	<u>(97,931)</u>	<u>(38,835)</u>	<u>(51,099)</u>	<u>(41,232)</u>
Total equity	<u>133,441</u>	<u>122,886</u>	<u>118,210</u>	<u>106,539</u>	<u>74,661</u>
Non-controlling interests	13,870	16,463	16,659	14,791	12,264
Equity attributable to owners of the Company	<u>119,571</u>	<u>106,423</u>	<u>101,551</u>	<u>91,748</u>	<u>62,397</u>
Total equity	<u>133,441</u>	<u>122,886</u>	<u>118,210</u>	<u>106,539</u>	<u>74,661</u>