

ANNUAL REPORT 2021

Sky Light Holdings Limited
天彩控股有限公司

Stock Code **3882**

Incorporated in the Cayman Islands with limited liability



Sky Light Holdings Limited



2021

ANNUAL REPORT

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Financial Highlights

	2021 HK\$'000	2020 HK\$'000	CHANGE
REVENUE	715,093	437,111	63.6%
COST OF SALES	(593,335)	(376,040)	57.8%
GROSS PROFIT	121,758	61,071	99.4%
GROSS PROFIT MARGIN (%)	17.0%	14.0%	3 p.p.t.
LOSS FOR THE YEAR	(3,412)	(71,063)	(95.2%)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY BASIC AND DILUTED	HK(0.4)cent	HK(6.7)cents	(94.0%)

Corporate Information

Board (the “Board”) of Directors of the Company (the “Director(s)”)

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Lu Yongbin

Non-executive Director

Ms. Tang Kam Sau

Independent Non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Committees of the Board

Audit Committee (the “Audit Committee”)

Mr. Tse Yat Hong (*Chairman*)
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Remuneration Committee (the “Remuneration Committee”)

Mr. Tse Yat Hong (*Chairman*)
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

Nomination Committee (the “Nomination Committee”)

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Tse Yat Hong
Mr. Chan Tsu Ming Louis

Authorized Representatives

Mr. Tang Wing Fong Terry
Mr. Lu Yongbin

Company Secretary

Mr. Lu Yongbin

Registered Office

Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands

Head Office, Headquarters and Principal Place of Business in the People’s Republic of China (“China” or the “PRC”)

Building No.8 & 1-2/FL Building No.9
Antuoshan High-tech Industrial Park
Xinsha Road, Shajing, Bao’An
Shenzhen
PRC

Principal Place of Business in Hong Kong

Room 1910 19/F Kwong Sang Hong Centre
151–153 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

Auditor

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

Hong Kong Legal Adviser

Mayer Brown
16th–19th Floors, Prince’s Building
10 Charter Road
Central
Hong Kong

Corporate Information

Cayman Islands Principal Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Hongkong and Shanghai Banking Corporation Limited
Level 10 HSBC Main Building
1 Queen's Road
Central
Hong Kong

Stock Code

3882

Company Website Address

www.sky-light.com.hk

Chairman's Statement

To all shareholders,

First of all, on behalf of the Board of Directors, thank you for your continued support for Sky Light Holdings Limited ("Sky Light" or the "Company" or "our Company") and its subsidiaries (together, the "Group" or "our Group" or "we").

For the year ended 31 December 2021 ("FY2021"), the Group's total revenue was approximately HK\$715.1 million (2020: approximately HK\$437.1 million), which was approximately 63.6 % higher than that for the year ended 31 December 2020 ("FY2020"). We recorded a loss of about HK\$3.4 million in FY2021, a decrease of about 95.2% compared with the end of 2020.

For FY2021, the improvement in financial performance is mainly due to the following reasons:

1. The operation of our factory in Vietnam is continuously improving.
2. The Group has been striving to improve its internal operation and pursue higher efficiency.
3. We have achieved positive results in optimizing the customer portfolio.

For the past two years, we have worked hard to clean up the matters caused by our disappointing investment in the ION360 business. In the meantime, we focused on restructuring our organization, optimizing our customer portfolio and setting up a new factory in Vietnam. We achieved significant results in these works.

In 2022, we will further improve our operation efficiency, optimize our supply chain and strengthen our relationship with customers; Hoping that we can keep on growing our business. Furthermore, we will dedicate ourselves going deep into our main product lines in all aspects. We believe that we can strengthen our competitive advantages.

In 2022, we believe that deglobalization, high inflation, semiconductor chip shortage and Vietnam epidemic are the main challenges for our business. We will monitor closely and reduce the risks by taking effective measures. In any case, we will actively develop market-driven business and products, and strive to improve our financial performance.

Appreciation

On behalf of the Board of Directors, I would like to express my sincere gratitude to all business partners, customers and shareholders for their ongoing support, as well as the management team and all employees of the Group for their contributions in the past years. We believe that, with everybody's dedication and efforts, the Group will be well-positioned to achieve further success.

Tang Wing Fong Terry

Chairman

Hong Kong, 29 March 2022

Management Discussion and Analysis

Business review

The Group is principally engaged in the sales, development and manufacture of home surveillance cameras, police cameras, video conference devices, 360-degree cameras, baby monitors, remote learning devices and other imaging products for various purposes. Leveraging its substantial experience in various digital imaging products, the Group sets itself apart from other manufacturers by providing customers with design-driven joint design manufacturing (“JDM”) and original design manufacturing (“ODM”) solutions.

For FY2021, the Group’s total turnover was approximately HK\$715.1 million, which was about 63.6% higher compared to approximately HK\$437.1 million for FY2020. We recorded a loss of approximately HK\$3.4 million for FY2021, a significantly decrease of about 95.2% compared with FY2020.

The improvement in financial performance is mainly attributed to the following reasons:

- (i) Although the epidemic of Covid-19 in Vietnam was rather serious, the performance of our factory in Vietnam improved quite a lot during the year. Due to the travel restrictions, we hired the local Vietnamese to undertake most of the management and technical work of our factory in Vietnam. With the continuous improvement of their work quality, this helped us to fulfill the orders of American customers and significantly increased our sales revenue.
- (ii) The Group has been dedicated to improving its internal operation and pursuing higher efficiency.
- (iii) We have achieved positive results in optimizing the customer portfolio.

For FY2021, our revenue mainly came from the manufacture of home surveillance cameras, police cameras, baby monitors and remote learning devices. These businesses are expected to continue growing in 2022.

Prospects

In 2022, we believe that deglobalization, high inflation, semiconductor chip shortage and Vietnam epidemic are the main challenges for our business. We will monitor closely and reduce the risks by taking effective measures. On the basis of the past two years, we will further speed up the operation and provide better service to our customers.

Because of the pandemic of Covid-19, more people are used to working from home and using video conferencing to communicate. We believe that the demand for the video conference devices will increase. Therefore, we will put more effort into developing more products in this category.

Management Discussion and Analysis

In order to improve our financial performance and achieve a profit turnaround as soon as possible, we will strive to increase market share and provide customers with high-quality products and solutions through the following strategies.

- Continue to develop innovative products driven by the market.
- Actively explore the market of Japan, Europe and other Asian countries.
- We will work deeper in our main product lines by all aspect. We believe that we can strengthen our competitive advantages in the product categories.
- Optimize the Group's operation and provide efficient service to customers.

Financial review

Turnover

The Group's products mainly consist of the following three categories: (i) home surveillance cameras, (ii) digital imaging products, and (iii) other products. It generates revenue predominantly from sales of these products, as well as from other income, such as research and development ("R&D") service and tooling fees associated with products that it manufactures for customers. It is expected that the contribution from home surveillance cameras will increase in the next few years. The following table sets out the breakdown of the revenue from sales of major products by product type for the periods indicated:

	2021 HK\$'000	% of total revenue	2020 HK\$'000	% of total revenue	Revenue change
Sales of Products					
Home surveillance cameras	494,780	69.2%	180,299	41.2%	174.4%
Digital imaging products	114,074	16.0%	165,327	37.8%	(31.0%)
Other products	93,115	13.0%	86,801	19.9%	7.3%
SUB-TOTAL	701,969	98.2%	432,427	98.9%	62.3%
Manufacturing service income	13,124	1.8%	4,684	1.1%	180.2%
TOTAL	715,093	100.0%	437,111	100.0%	63.6%

For FY2021, the Group recorded a turnover of approximately HK\$715.1 million (FY2020: approximately HK\$437.1 million), representing an increase of approximately 63.6% as compared to FY2020. The increase was mainly due to the significant rise in the shipment units of home surveillance cameras.

Management Discussion and Analysis

The Group sells its products mainly to customers in the US and European Union and it is expected that the US and European Union market will continue to account for majority of the Group's revenue in the foreseeable future. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

	2021 HK\$'000	2020 HK\$'000
United States of America	473,334	265,059
Mainland China	76,720	46,009
European Union	132,098	93,242
Hong Kong	1,571	3,028
Other countries/regions	31,370	29,773
	715,093	437,111

Cost of sales

Cost of sales represents costs and expenses directly attributable to the manufacture of the Group's products which comprise (i) raw materials, components and parts, including, among others, key components such as digital signal processors, lenses and sensors; (ii) direct labour; and (iii) production overhead, mainly including depreciation of production equipment and indirect labour.

For FY2021, cost of sales of the Group amounted to approximately HK\$593.3 million (FY2020: approximately HK\$376.0 million), representing an increase of approximately 57.8% as compared to FY2020, and amounted to approximately 83.0% (FY2020: approximately 86.0%) of its turnover for FY2021. This increase was mainly attributable to the turnover increased, the corresponding cost of sales has also increased.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK\$121.8 million for FY2021 (FY2020: approximately HK\$61.1 million), representing an increase of approximately 99.4% as compared to FY2020. The gross profit margin increased from approximately 14.0% for FY2020 to approximately 17.0% for FY2021. This increase was mainly attributable to the reduction of the impairment losses for inventories amounted approximately HK\$24.1 million.

Other income and gains

Other income and gains mainly include (i) bank interest income; (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies and (iii) written-off of trade and other payable and contract liabilities.

For FY2021, other income and gains of the Group significantly decreased by approximately HK\$2.3 million to approximately HK\$15.1 million as compared to FY2020, which was primarily attributable to a decrease of approximately HK\$3.9 million in government subsidies.

Management Discussion and Analysis

Selling and distribution expenses

Selling and distribution expenses include mainly (i) salaries and benefits of its sales and marketing staff; (ii) marketing, exhibition and advertising costs; and (iii) entertainment expenses relating to its sales and marketing activities.

For FY2021, selling and distribution expenses of the Group slightly increased approximately 3.9% to approximately HK\$34.1 million from approximately HK\$32.8 million for FY2020, mainly due to the increase of transportation expenses approximately HK\$3.8 million for FY2021.

Administrative expenses

Administrative expenses mainly include (i) salaries and benefits of the Group's management, administrative and finance staff; (ii) rental and office expenses; (iii) professional fees; (iv) other taxes and levies payable to government authorities; and (v) entertainment expenses.

For FY2021, administrative expenses of the Group slightly increased by approximately 2.1% to approximately HK\$50.5 million (FY2020: approximately HK\$49.4 million). The increase was mainly due to the government reduced the company's social security for employees of approximately HK\$1.2 million during FY2020, but there was no relevant reduction policy during FY2021.

Research and development costs

Research and development costs include (i) salaries and benefits of the Group's research and development and product planning staff; (ii) raw materials, components and parts used for research and development and product planning; and (iii) other miscellaneous costs and expenses such as rental fees, design service fees, depreciation and certification fees.

For FY2021, the Group recorded research and development costs of approximately HK\$52.8 million, which slightly increased by approximately 5.4% from approximately HK\$50.1 million for FY2020. The increase was mainly due to the increase of salaries and benefits of the Group's research and development and product planning staff approximately HK\$4.6 million for FY2021.

Other expenses

Other expenses include principally (i) exchange losses arising mainly from fluctuations in exchange rates between the invoice and settlement dates of its sales and purchases and from translation of its US\$-denominated trade payables and receivables; and (ii) impairment losses of assets.

For FY2021, other expenses of the Group significantly decreased to approximately HK\$1.8 million from approximately HK\$15.0 million for FY2020. The decrease mainly consisted of the decrease of exchange loss of approximately HK\$9.9 million caused by the depreciation of RMB against US dollar during FY2021.

Management Discussion and Analysis

Finance costs

For FY2021, the finance costs of the Group decreased to approximately HK\$1.9 million (FY2020: approximately HK\$2.2 million), representing a decrease by approximately 13.9% as compared to FY2020. This decrease was attributable to the reduction of the interest expense of lease liabilities.

Income tax credit

For FY2021, the income tax credit of the Group increased to approximately HK\$0.9 million (FY2020: Nil). This increase was attributable to the reduction in deferred income tax liabilities.

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$3.4 million for FY2021 (attributable to non-controlling interests is a profit of approximately HK\$0.4 million).

Liquidity and capital resources

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

	2021 HK\$'000	2020 HK\$'000
Net cash flows generated from/(used in) operating activities	5,933	(11,200)
Net cash flows (used in)/generated from investing activities	(20,839)	2,916
Net cash flows generated from/(used in) financing activities	5,382	(18,316)
Net decrease in cash and cash equivalents	(9,524)	(26,600)
Cash and cash equivalents at beginning of year	97,486	106,899
Effect of foreign exchange rate changes, net	8,226	17,187
Cash and cash equivalents at end of year	96,188	97,486

Net cash flow generated from operating activities for FY2021 was approximately HK\$5.9 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$3.4 million; (ii) the decrease in trade and factoring receivables of approximately HK\$20.9 million; (iii) the increase in inventory balances of approximately HK\$29.2 million; (iv) the increase in prepayments and other receivables of approximately HK\$6.7 million; (v) the decrease in trade payables of approximately HK\$6.3 million; and (vi) the increase in other payables and accruals of approximately HK\$33.9 million.

Management Discussion and Analysis

Net cash flow used in investing activities for FY2021 was approximately HK\$20.8 million. This mainly consisted of (i) payment of approximately HK\$20.5 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) receipt of approximately HK\$2.0 million for disposal of items of property, plant and equipment, and (iii) payment of approximately HK\$2.6 million for acquisition of an associate.

Net cash flow generated from the financing activities for FY2021 was approximately HK\$5.4 million, which was mainly reflected (i) the increase in the use of interest-bearing bank borrowings to repay trade payables approximately HK\$19.9 million; and (ii) the principal portion of lease payments to approximately HK\$14.5 million.

The Group's cash and cash equivalents were denominated in US\$, HK\$, VN\$ and RMB as at 31 December 2021.

Borrowing and the pledge of assets

The Group's bank facilities amounting to approximately HK\$46.4 million (FY2020: approximately HK\$23.0 million), of which approximately HK\$31.9 million (FY2020: approximately HK\$11.3 million) had been utilised as at the 31 December 2021 and are repayable within one year.

As at 31 December 2021, the bank loans were secured by the pledge of the life insurance policy and pledged bank deposits, personal guarantee executed by a controlling shareholder of the Company, corporate guarantee executed by a company controlled by the controlling shareholder of the Company and two subsidiaries of the Group respectively. The factoring loan of approximately HK\$9.5 million was secured by the pledge of the Group's trade and factoring receivables of approximately HK\$11.9 million.

As at 31 December 2021, the annual interest rate of secured bank loans ranged from 1.3% to 1.4% (FY2020: 1.4% to 1.5%) and the annual interest rate of the factoring loans around 1.7% (FY2020: Nil).

The Group's bank borrowings are all denominated in US\$.

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank borrowings and lease liabilities) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2020 and 31 December 2021 was approximately 22.5% and approximately 28.2%, respectively. The increase in gearing ratio was mainly due to the significant increase in outstanding interest-bearing bank borrowings during FY2021.

Capital expenditure

During FY2021, the Group invested approximately HK\$20.5 million (FY2020: approximately HK\$3.9 million) in fixed assets and intangible assets in order to meet the increased production capacity of factory in Vietnam.

Off balance sheet transactions

During FY2021, the Group did not enter into any material off balance sheet transactions.

Management Discussion and Analysis

Foreign exchange exposure and exchange rate risk

The Group has transactional currency exposure, which arises from sales or purchase by operating units in currencies other than the units' functional currencies. Approximately 86.8% (FY2020: 83.1%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 36.9% (FY2020: 47.0%) of costs were denominated in their functional currencies.

During the year, there was no material impact on the Group arising from the fluctuation in the exchange rates of these currencies. The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its foreign exchange exposure during FY2021 (FY2020: Nil). In addition, the Group did not have any foreign currency net investments which have been hedged by currency borrowing and other hedging investments.

Events after the reporting period

As disclosed in the Company's announcements dated 5 January 2022 and 6 January 2022, on 5 January 2022, Sky Light Digital Limited, an indirect wholly-owned subsidiary of the Company, as vendor, and King Lai Hua Limited, as purchaser, entered into a sale and purchase agreement, pursuant to which, Sky Light Digital Limited has agreed to sell, and King Lai Hua Limited has agreed to purchase, the property situated at Room 1009, 10/F, Kwong Sang Hong Centre, 151-153 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong at a cash consideration of HK\$15,000,000.

At the date of this annual report, the disposal of the abovementioned property has been completed.

Save as disclosed above, there are no significant events affecting the Group which occurred after the reporting period of FY2021 and up to the date of this annual report.

Treasury policies

During FY2021, the Group did not have any investment under its treasury policies.

The Group has implemented its internal treasury investment policies since January 2015 (updated in December 2015), which provide the guidelines, requirements and approval process with respect to its treasury investment activities. It regularly evaluates the risks and returns of its wealth management products.

Under its treasury investment policies, the Group is only allowed to invest in wealth management products with the two lowest risk rating classified by the banks and debentures with ratings above "BBB" or "baa" or similar ratings. All the treasury products must also meet the following criteria: (i) be issued by well-recognised publicly-listed banks, (ii) no default history, and (iii) have a maturity term of less than one year or can be easily converted into cash in the market. Such treasury investment policies also provide that the outstanding balance of the Group's wealth management products shall not exceed 50% of its total amount of cash and cash equivalents and wealth management products. Any plan to increase this limit must be approved by the Board. No single investment can exceed 35% of the total amount invested.

The Group has an experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with its internal policies and requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The management, internal audit and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risks associated with these investments.

Management Discussion and Analysis

Employees and emoluments policy

As at 31 December 2021, the Group employed a total of 1,448 employees (31 December 2020: 1,482). The staff costs of the Group, excluding directors' emoluments and any contribution to pension scheme were approximately HK\$119.9 million for FY2021 (FY2020: approximately HK\$96.7 million), approximately HK\$0.3 million (FY2020: approximately HK\$0.3 million) of which are expenses for the Group's share option schemes. All of the Group's employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

Significant investments held

The Group held 8.60% equity interest in a start-up company, Kandao Technology Co., Ltd ("Kandao"). The investment was acquired by the Group from the period November 2016 to January 2017 at an initial amount of HK\$45.4 million.

Kandao was established on January 2016, which focuses on the technology and development of software and hardware for imaging electronics products. The main products includes 6-eye 8K resolution three-dimensional professional panoramic camera, 8K resolution consumer panoramic camera and 360-degree smart conference video.

Kandao's products have won the best innovation award in the Consumer Electronics Show of digital imaging category.

For FY2021, Kandao has strengthen the product promotion and turn losses into profits. It is expected that there will be a steady development trend in the year.

As at 31 December 2021, the investment accounted for 5.5% of the Group's total assets and the fair value of this investment held by the Group was approximately HK\$27.1 million (31 December 2020: approximately HK\$24.4 million) presenting HK\$2.7 million unrealized profit as at 31 December 2021. No dividend was received from this investment during FY2021 (FY2020: Nil).

The Board believe that imaging products and solutions will be widely used with different applications, especially in the upcoming 5G era.

The Group will continue to hold this unlisted equity investment for the following reasons:

- (i) This investment still has potential for growth in the future;
- (ii) This investment has synergies with the Group's business and can widen sales channel.

Saved as disclosed above, there is no investment held by the Group with a value of 5% or more of the Company's total assets as at 31 December 2021.

Management Discussion and Analysis

Commitment

As at 31 December 2021, the Group's capital commitment amounted to approximately HK\$0.9 million (31 December 2020: approximately HK\$0.2 million).

Future plans for material investments or capital assets

As at the date of this annual report, the Group did not have any plans for material investments or capital assets.

Material acquisitions and disposals of subsidiaries and associated companies

The Group did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures during FY2021.

Contingent liabilities

As at 31 December 2021, the Group had no significant contingent liabilities.

Annual general meeting

The annual general meeting of the Company (the "AGM") is scheduled to be held on Thursday, 26 May 2022. A notice convening the AGM will be issued and disseminated to the shareholders of the Company in due course.

Dividends

The Board did not recommend the payment of any final dividend for FY2021 (FY2020: Nil).

Financial position as at 31 December 2021

As at 31 December 2021, the Group's total equity was approximately HK\$221.0 million (31 December 2020: approximately HK\$215.8 million), total assets amounted to approximately HK\$494.2 million (31 December 2020: approximately HK\$458.6 million) and total liabilities stood at approximately HK\$273.3 million (31 December 2020: approximately HK\$242.8 million).

Closure of register of members

The register of members of the Company will be closed from Monday, 23 May 2022 to Thursday, 26 May 2022 (both days inclusive) during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May 2022.

Director and Senior Management

Executive Directors

Mr. Tang Wing Fong Terry (鄧榮芳), aged 63, is the Chairman, an executive Director and the chief executive officer of the Company and the founder of the Group. Mr. Tang is the chairman of the Nomination Committee and a member of the Remuneration Committee. He was appointed as the Chairman and an executive Director with effect from 18 December 2013. He has been the general manager of the Group and is a director of each of the subsidiaries of the Company. Mr. Tang is primarily responsible for the overall strategic planning and overseeing the general management of the Group. Mr. Tang has over 20 years of experience in the digital imaging, computer peripherals and consumer electronics industry.

Prior to establishing the predecessor business in 2000, Mr. Tang co-founded Peer Industries Ltd., a company engaged in the trading of materials and production equipment for manufacturing computer diskettes, in 1992.

Mr. Tang received a part-time higher certificate of mechanical engineering from the Hong Kong Polytechnic University in 1982.

Mr. Lu Yongbin (盧勇斌), aged 49, is an executive Director, the chief financial officer and the company secretary of the Company. Mr. Lu joined the Group in 2005 and was appointed as an executive Director with effect from 25 March 2015. He is currently the head of the finance department and is primarily responsible for the management of overall financial and accounting affairs of the Group. Mr. Lu has over 25 years of experience in accounting and related financial management and over 15 years of experience in the digital imaging industry.

Mr. Lu graduated from the Hubei Normal University with an associate degree in accounting and finance in 1998. Mr. Lu became as a certified public accountant in the PRC in 2004 and is a fellow member of the Chinese Institute of Certified Public Accountants and the China Certified Tax Agents Association.

Non-Executive Director

Ms. Tang Kam Sau (鄧錦繡), aged 59, is a non-executive Director of the Company. Ms. Tang joined the Group in 2005 and was appointed as a non-executive Director with effect from 25 March 2015. Ms. Tang has over 10 years of experience in the digital imaging industry.

Ms. Tang is a director of a company which is principally engaged in manufacturing multimedia product packaging materials since 2009.

Ms. Tang is also a director of Sky Light Imaging Limited, Sky Light Shenzhen and Sky Light Digital Limited. Ms. Tang has been appointed as a director of Vupoint Solutions Inc, a member of the Group, with effect from 22 January 2016.

Director and Senior Management

Independent Non-Executive Directors

Mr. Tse Yat Hong (謝日康), aged 52, is an independent non-executive Director of the Company. Mr. Tse joined the Group on 5 December 2017 and was appointed as an independent non-executive Director with effect from 5 December 2017. He is the chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee.

Mr. Tse is currently an independent non-executive Director of China Huirong Financial Holdings Limited (Stock Code: 1290) and China Bohai Bank Co., Limited (Stock Code: 9668) since October 2013 and June 2020 respectively. Also, he is an independent non-executive Director of Radiance Holdings (Group) Company Limited (Stock Code: 9993) and E-Star Commercial Management Company Limited (Stock Code: 6668) since October 2020 and December 2020 respectively. All of these companies are listed on the Main Board of the Stock Exchange.

From June 2000 to May 2019, Mr. Tse served as the Chief Financial Officer of Shenzhen International Holdings Limited (stock code: 00152), a company listed on the Main Board of the Stock Exchange. He also served as a non-executive director of Shenzhen Expressway Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00548) and the Shanghai Stock Exchange (stock code: 600548) during the period from December 2008 to December 2017. Prior to this, Mr. Tse worked in the audit profession in one of the international accounting firms for years. Mr. Tse has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China.

Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of Certified Public Accountants Australia. Mr. Tse graduated from Monash University in Melbourne, Australia in April 1992 with a bachelor's degree in accounting and computer science.

Dr. Cheung Wah Keung (張華強), aged 61, is an independent non-executive Director of the Company. Dr. Cheung joined the Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Dr. Cheung is a member of the Audit Committee. Dr. Cheung has more than 30 years of experience in trading and manufacturing of consumer electronic products.

Dr. Cheung is currently the chairman of Shinhint Group and Tai Sing Industrial Company Limited. He is an independent non-executive director of Casablanca Group Limited (Stock Code: 2223) since May 2017 and is also an independent non-executive director and an independent non-executive chairman of PanAsialum Holdings Company Limited (Stock Code: 2078) since March 2018 and August 2019 respectively. Also, he is an independent non-executive director of Activation Group Holdings Limited (Stock Code: 9919) since December 2019. All of these companies are listed on the Main Board of the Stock Exchange.

Dr. Cheung obtained a bachelor's degree in business administration, a master's degree in global political economy from the Chinese University of Hong Kong, a master's degree in corporate governance and a doctoral degree in business administration from The Hong Kong Polytechnic University. He was awarded by the Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University and a committee member of the Council of The Hang Seng University of Hong Kong.

Director and Senior Management

Mr. Chan Tsu Ming Louis (陳祖明), aged 62, is an independent non-executive Director of the Company. Mr. Chan joined the Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Mr. Chan is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Chan has more than 20 years of experience in finance and banking. Between 1982 and 1983, he served as a credit analyst of Banque Nationale de Paris. Between 1983 and 1986, he worked at The Industrial Bank of Japan, Ltd. as a senior marketing officer. He worked at Bankers Trust Company between 1986 and 1995 with his last position as a vice president (capital markets). Mr. Chan joined Standard Chartered Bank in 1995 as a senior manager. Between 2000 and 2001, he was the head of corporate development of Willas-Array Electronics Management Limited, now a wholly-owned subsidiary of Willas-Array Electronics (Holdings) Limited, a company listed on the Stock Exchange (stock code: 854) and the Singapore Stock Exchange. He worked at Standard Bank Asia Limited in 2005 as a director (equity Asia) until 2009. Between 2009 and 2012, he was a senior director (finance and accounting) of Wuhan Admiral Technology Limited, a wholly-owned subsidiary of TPV Technology Limited (stock code: 903), a company listed on the Stock Exchange which is engaged in the manufacturing, sales and distribution of televisions and computer monitors.

Mr. Chan obtained a master's degree in business administration from the University of Hong Kong in November 1995 and a higher diploma in business studies (banking) from the Hong Kong Polytechnics University in November 1982.

Save as disclosed in the section headed "Directors' Report" of this annual report, as at 31 December 2021, (i) none of the above Directors had any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"); and (ii) none of the Director is a director or employee of a company which had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Senior Management

Our senior management is responsible for the day-to-day management of our business and comprises each of our executive Directors and the executives described below.

Mr. Gan Weijun (甘衛軍), aged 54, is the head of research and development of the Group. Mr. Gan joined the Group in October 2002. He is primarily responsible for leading the overall research and development activities of the Group. Mr. Gan has more than 15 years of experience in the digital imaging industry.

Mr. Gan obtained a bachelor's degree in precision instrument from the Shanghai Jiao Tong University in 1989.

Dr. Yum Tsz Yin (任子賢), aged 42, is the director of marketing and strategic sales of the Group. Dr. Yum joined the Group in April 2016. He is primarily responsible for the sales, program and marketing of the Group. Dr. Yum has approximately 20 years of experience in product, business and brand management in the consumer electronics industry.

Prior to joining the Group, Dr. Yum worked at IDT International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0167) between August 2005 and September 2013 and Binatone Electronics International Limited ("Binatone") between October 2013 and March 2016, with his last position in Binatone as the global product management director for Motorola baby, smart home, pet monitors and IOT products.

Director and Senior Management

Dr. Yum obtained a bachelor's degree in electronic engineering and doctor's degree in philosophy from the City University of Hong Kong in 2002 and 2005, respectively.

Mr. Tsui Chiu (徐超), aged 43, is the head of product planning of the Group. Mr. Tsui joined the Group in April 2011. He is primarily responsible for leading the product planning activities of the Group. Mr. Tsui has more than 10 years of experience in product planning and management in the consumer electronics industry.

Prior to joining the Group, Mr. Tsui worked at the Hong Kong office of Radioshack between January 2005 and November 2007 and the China office of Office Depot between December 2007 and June 2010, both of which are well-known chain stores in the United States.

Mr. Tsui obtained a bachelor's degree in engineering and master's degree in philosophy from the Hong Kong Polytechnic University in 2001 and 2004, respectively.

There is no relationship as set out in paragraph 12 of Appendix 16 to the Listing Rules among the Directors and the senior management.

Company Secretary

Mr. Lu Yongbin (盧勇斌), is the company secretary of the Company. Mr. Lu is also an executive Director and the chief financial officer of the Company. Please refer to the paragraph headed "Executive Directors" above in this section for further biographical information about Mr. Lu.

Corporate Governance Report

Corporate Governance Practices

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of shareholders of the Company (the “Shareholders”) and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) set out in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices. Throughout the year ended 31 December 2021, the Company has complied with all applicable code provisions of the CG Code in force except for the following:

Non-compliance during FY2021

Pursuant to CG Code provision A.2.1 (which has been re-numbered as C.2.1 since 1 January 2022) (the “**Code Provision A.2.1**”), the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board (“Chairman”) and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the Code Provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to the Company and allow for more effective planning and management for our Group. In view of Mr. Tang’s extensive experience in the industry, personal profile and critical role in our Group and its historical development, the Board considers that it is beneficial to the business prospects of our Group that Mr. Tang continues to act as both our Chairman and our chief executive officer. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct governing its directors’ securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have fully complied with the Model Code throughout the year ended 31 December 2021.

The Company has also established written guidelines on no less exacting terms than the Model Code (the “Employees Written Guidelines”), for securities transactions by relevant employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its directors and relevant employees in advance.

Corporate Governance Report

The Board of Directors

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company and the Shareholders at all times.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

Delegation of management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Company has adopted a formal schedule of functions reserved to the Board and delegated to the management.

Delegation of corporate governance duties

The Board has delegated the responsibility for performing corporate governance functions set out in the code provision D.3.1 (which has been re-numbered as A.2.1 since 1 January 2022) of the CG Code to the Audit Committee.

Board Composition

Currently, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Company has complied with rules 3.10 and 3.10A of the Listing Rules. Throughout the year ended 31 December 2021 and save as disclosed above in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

Corporate Governance Report

The Board comprises the following directors:

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman and Chief Executive Officer*)

Mr. Lu Yongbin (*Chief Financial Officer and Company Secretary*)

Non-executive Director

Ms. Tang Kam Sau

Independent non-executive Directors

Mr. Tse Yat Hong

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

The brief biographic details of the existing Directors are set out under the section headed “Directors and Senior Management” in this annual report. There are no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

Chairman and Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not segregated the roles of chairman and chief executive officer and Mr. Tang Wing Fong Terry currently holds both positions, as explained in the above paragraph headed “Corporate Governance Practices” in the Corporate Governance Report.

Non-executive Director

The non-executive Director is expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company’s performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred to the Board under the memorandum and articles of association of the Company and applicable laws, rules and regulations.

Corporate Governance Report

Independent Non-executive Directors

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of the Shareholders and the Company.

Each independent non-executive Director has provided the Company with an annual confirmation of his independence. The Company considers all independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Appointment, Re-Election and Removal of Directors

Executive Directors, the non-executive Director and independent non-executive Directors of the Company are appointed for an initial term of three years commencing on the respective dates of their appointments. Each of their appointment can be terminated by either party giving not less than three months' prior notice in writing to the other.

Mr. Tse Yat Hong's appointment commences from 5 December 2020, while the other directors' appointments commence from 2 July 2021.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. According to the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's AGM. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by Shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by Shareholders at the next following AGM.

In accordance with the Company's Articles of Association, Mr. Tang Wing Fong Terry and Dr. Cheung Wah Keung shall retire at the forthcoming AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM. The Board and the Nomination Committee recommend their reappointment.

The Company's circular, sent together with this annual report, contains detailed information of the above two Directors proposed to be re-elected as required by the Listing Rules.

Corporate Governance Report

Continuous Professional Development of Directors

All Directors confirmed that they had complied with CG Code provision A.6.5 (which has been re-numbered as C.1.4 since 1 January 2022) during FY2021, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The existing Directors are continually updated on changes and developments to the Group's business and in the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their training records to the Company for record.

During FY2021, the Directors have participated in continuous professional training as follows:

Name of Directors	Nature of training covered ^(Notes)		
	a	b	c
<i>Executive Directors</i>			
Mr. Tang Wing Fong Terry	✓		✓
Mr. Lu Yongbin	✓	✓	✓
<i>Non-executive Director</i>			
Ms. Tang Kam Sau	✓		✓
<i>Independent non-executive Directors</i>			
Mr. Tse Yat Hong	✓	✓	✓
Dr. Cheung Wah Keung	✓	✓	✓
Mr. Chan Tsu Ming Louis	✓		✓

Notes:

- Receiving in-house regular briefings and updates on the Group's business, operations and corporate governance matters.
- Attending seminars/forums, which are relevant to their directors' duties and responsibilities, organized by professional firms/institutions.
- Reading technical bulletins, periodicals and other publications on subjects relevant to the Group and on their directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Corporate Governance Report

Board Meetings

The Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. Notice of regular Board meetings will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have material interests/conflict of interest, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during FY2021:

Name of Directors	Attendance/Number of Meetings Held				Annual General Meeting
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	
Executive Directors					
Mr. Tang Wing Fong Terry	4/4*	N/A	1/1*	1/1	1/1
Mr. Lu Yongbin	4/4	N/A	N/A	N/A	1/1
Non-executive Director					
Ms. Tang Kam Sau	4/4	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Tse Yat Hong	4/4	4/4*	1/1	1/1*	1/1
Dr. Cheung Wah Keung	4/4	4/4	N/A	N/A	1/1
Mr. Chan Tsu Ming Louis	4/4	4/4	1/1	1/1	1/1

Remark:

* representing chairman of the Board or the relevant committees

At least four regular board meetings are convened each year.

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

Corporate Governance Report

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company FY2021. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

Directors' and Officers' Liability Insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the year.

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee, and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange's websites (www.hkexnews.hk) and the Company's websites (www.sky-light.com.hk). All committees should report to the Board on their decisions or recommendations made.

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

Audit Committee

The Company established its Audit Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial information and reporting process, risk management and internal control systems and effectiveness of internal audit function, to monitor scope of audit and nominate and monitor external auditors, and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of the Audit Committee.

Corporate Governance Report

During the year, the Audit Committee has held four meetings (the attendance records of each Committee member are set out in above paragraph headed “Board Meetings”) for discussion on the following issues arising from the audit and financial reporting matters:

- Review and discussion of the audited consolidated financial statements, results announcement and report for the year ended 31 December 2020; unaudited interim condensed financial statements, results announcement and report for the six months ended 30 June 2021; the related accounting principles and practices adopted by the Group and the relevant audit/review findings, the report from the management on the Company’s internal control and risk management review and processes;
- Review the appointment of the external auditors;
- Review of the Group’s continuing connected transactions;
- Review of and monitoring the Company’s corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company’s compliance with the CG Code and disclosure in this Corporate Governance Report;
- Discussion of appointment of external service provider for review of the Group’s financial reporting process, risk management and internal control systems; and
- Review of the risk management and internal control systems and internal control function.

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit/review and financial reporting matters. The chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control, risk management and financial reporting matters, including the review of the audited annual results and annual report for FY2020 and the unaudited interim results and interim report for the six months ended 30 June 2021, and the review of the audited annual results and annual report for FY2021.

The terms of reference of Audit Committee were revised and adopted by the Company on 18 December 2015 pursuant to the amendments to the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 to the Listing Rules relating to internal control and risk management which would apply to accounting periods beginning on or after 1 January 2016.

Corporate Governance Report

Nomination Committee

The Company established Nomination Committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, procedures for nomination and appointment, to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the selection of candidates for any Director and senior management positions. The Nomination Committee comprises three members, being Mr. Tang Wing Fong Terry (chairman of the Board), Mr. Chan Tsu Ming Louis (independent non-executive Director) and Mr. Tse Yat Hong (independent non-executive Director). Mr. Tang Wing Fong Terry currently serves as the chairman of the Nomination Committee.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, board diversity, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

According to the board diversity policy adopted by the Company, the Nomination Committee is also responsible for reviewing the policy, developing and reviewing measurable objectives (including but not limited to gender, age, cultural and educational background, or professional experience) for implementing the policy, and monitoring the progress on achieving the measurable objectives set to ensure the continued effectiveness of the Board.

During the year, the Nomination Committee has held one meeting (the attendance records of each Committee member are set out in above section headed "Board Meetings") and performed the following major works:

- Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;
- Assessment of the independence of all the Company's independent non-executive Directors; and
- Review of the composition of the senior management.

Corporate Governance Report

Remuneration Committee

The Company established Remuneration Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration of the Directors and senior management, remuneration policy and structure for all Directors and senior management, and establish transparent procedures for developing such remuneration policy and structure. The Remuneration Committee consists of three members, being Mr. Tse Yat Hong (independent non-executive Director), Mr. Tang Wing Fong Terry (chairman of the Board) and Mr. Chan Tsu Ming Louis (independent non-executive Director). Mr. Tse Yat Hong currently serves as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee has held one meeting (the attendance records of each Committee member are set out in above paragraph headed "Board Meetings") to review and made recommendations on the remuneration packages of certain Directors and senior management and other related matters.

Pursuant to code provision B.1.5 (which has been re-numbered as E.1.5 since 1 January 2022) of the CG Code, the annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for FY2021 is set out below:

Remuneration band (HK\$)	Number of individual
500,001–<1,000,000	2
1,000,001–1,500,000	1

Details of the remuneration of each director of the Company and compensation of key management personnel of the Group for FY2021 are set out in note 12, note 13 and note 39, respectively, to the financial statements contained in this annual report.

The Company has adopted the model that the Remuneration Committee make recommendations to the Board on the remuneration package of individual executive Directors and senior management under the code provision B.1.2(c) (which has been re-numbered as E.1.2(c) since 1 January 2022) of the CG Code. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- business requirements;
- individual performance and contribution;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;

Corporate Governance Report

- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his/her own remuneration.

Corporate Governance Function

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Audit Committee and are as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

During the year under review, the Audit Committee has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Corporate Governance Report

External Auditors' Remuneration

The Company engaged RSM Hong Kong ("RSM") as its external auditors for FY2021. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. The statement of external auditors of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to RSM, the Company's auditors, in respect of audit services for FY2021 was HK\$1.6 million. The audit fee was approved by the Board. During the year, the total remuneration in respect of the non-audit services, mainly included the Group's internal control system and risk management, provided by the external professional firms of the Company was HK\$0.4 million.

The Board has proposed to re-appoint RSM as the auditors of the Company, which is subject to the approval by the Shareholders at the forthcoming AGM.

Risk Management and Internal Control

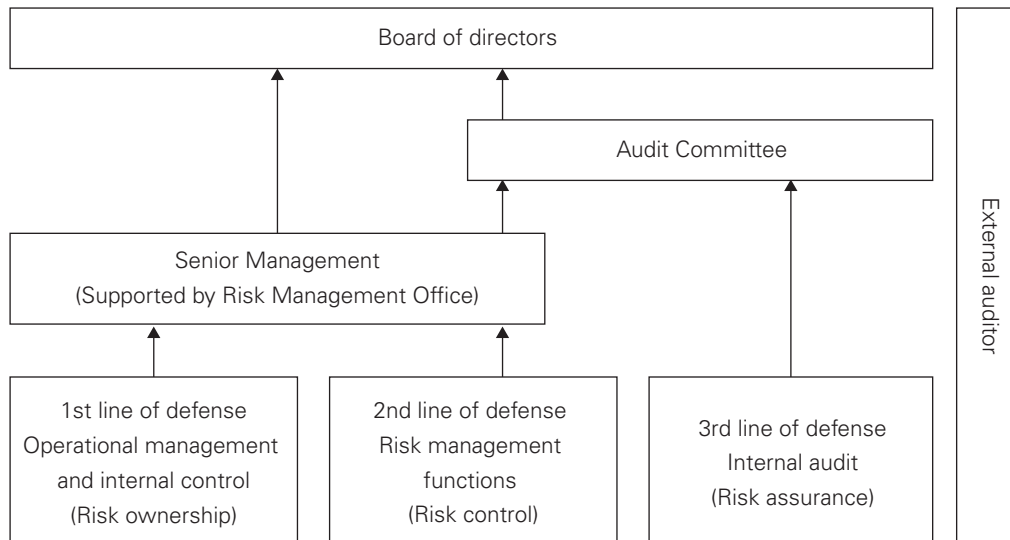
The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal control, and the resourcing of the finance and internal audit functions.

The Company has established an organizational structure with defined levels of responsibility and reporting procedures. The risk management office of the Group ("Risk Management Office") and internal audit functions of the Group ("Group Internal Audit") assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through these committees are kept regularly apprised of significant risks that may impact on the Group's performance.

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

Corporate Governance Report

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:



The Risk Management Office, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting, including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management Office at each regularly scheduled meeting.

Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal control, including but not limited to, any indications of failings or material weaknesses in those control.

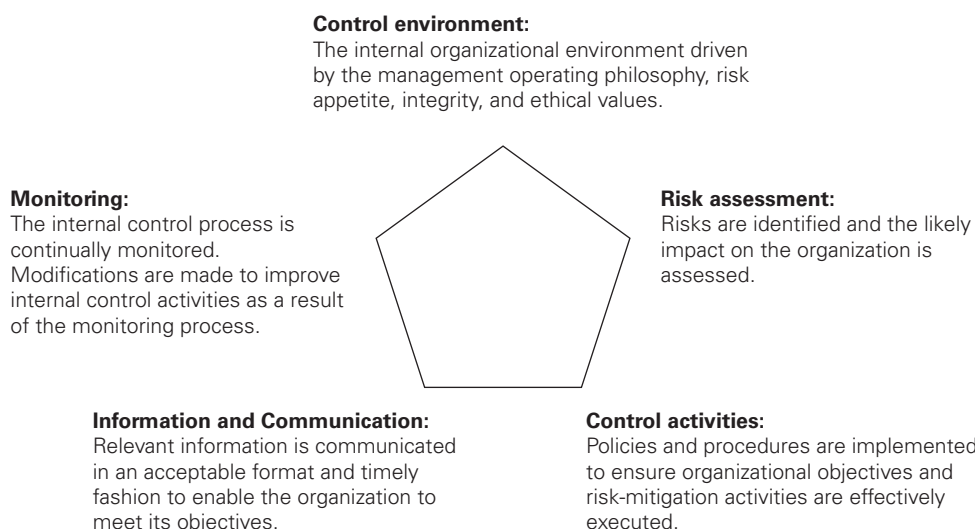
Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and chief executive officer of the Group periodically.

Group Internal Audit provides independent assurance and report to the Board, the Audit Committee and the chief executive officer of the Group, who is also the chairman of the Board, on the adequacy and effectiveness of internal control for the Group.

The senior management of the Group, supported by the Risk Management Office and monitored by the Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

Corporate Governance Report

For many years, the Company has had an integrated approach for internal control which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.



Within this framework, management is responsible for setting the appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal control. Other teams such as finance, legal, and human resources provide assistance and expertise to management to assist it in undertaking its responsibilities. The Board and Audit Committee oversee the actions of management and monitor the effectiveness of the established controls, assisted by assurance provided by the external and internal auditors. The Group's internal control framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and as such, provides reasonable (rather than absolute) assurance against material misstatement or loss.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and, at least annually, to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future.

The Company has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal control continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

Corporate Governance Report

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the head of Group Internal Audit to receive on its behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations for action resulting from investigation into complaints.

The Company regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. During FY2021, the Risk Management Office has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal control with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management Office has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During FY2021, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board and appropriate actions are taken. The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for FY2021.

During FY2021, the Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The Board considered that the Group's internal control system is adequate and effective and the Company has complied with the code provision on risk management and internal control of the CG code in force.

In addition to the review of risk management and internal control undertaken within the Group, the external auditors also assessed the adequacy and effectiveness of certain key risk management and internal control as part of their statutory audits. Where appropriate, the external auditors' recommendations are adopted and enhancements to the risk management and internal control will be made.

Corporate Governance Report

Company Secretary

The company secretary of the Company is Mr. Lu Yongbin. His biographical details are set out under “Directors and Senior Management” section in this annual report.

During FY2021, Mr. Lu Yongbin has taken not less than 15 hours of relevant professional training.

Dividend Policy

The Company has adopted a Dividend Policy. It aims to provide the Shareholders with stable and sustainable returns. In proposing any dividend payout, the Board shall take into account, inter alia, the Group’s financial condition, working capital requirements and future expansion plans, actual operations and liquidity position, the Company’s retained earnings, distributable reserves and cash flow situation, general economic condition and other factors that the Board considers appropriate.

Shareholders’ Rights

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting. An AGM shall be called by notice of not less than 21 clear days and not less than 20 clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than 14 clear days and not less than 10 clear business days.

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Company’s Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company’s principal place of business in Hong Kong.

Corporate Governance Report

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 58 of the Company's Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 85 of the Company's Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for the Shareholders to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules and article 66(1) of the Company's Articles of Association, any vote of the shareholders at a general meeting must be taken by poll except where the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the Shareholders in the following manner:

- Delivery of annual and interim results and reports to all Shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange's and the Company's websites, and issuance of other announcements and circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and Shareholders.

Constitutional Documents

During the year, the Company has not made any changes to its Memorandum and Articles of Association.

Directors' Report

The Directors are pleased to present to the Shareholders this annual report and the audited financial statements for FY2021.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 38 to the financial statements.

Results and Dividends

The results of the Group for FY2021 and the state of affairs of the Company and of the Group as at 31 December 2021 are set out in the financial statements on pages 57 to 139. The Board do not recommend any final dividend for FY2021 (FY2020: Nil).

The Board is not aware of any Shareholders who have waived or agreed to waive any dividend.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 23 May 2022 to Thursday, 26 May 2022, both days inclusive, during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May 2022.

Financial Summary

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 140 of this annual report. The summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group for FY2021 are set out in note 16 to the financial statements.

Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 December 2021 are set out in note 28 to the financial statements.

Share Capital

Details of the movements in share capital of the Company during FY2021 are set out in note 33 to the financial statements.

Directors' Report

Pre-Emptive Rights

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

Reserves

Details of the movement in reserves of the Company and the Group during the year under review are set out in note 35 to the financial statements and the consolidated statement of changes in equity respectively.

Distributable Reserves

As at 31 December 2021, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK\$117.4 million (2020: approximately HK\$321.5 million) including share premium of approximately HK\$752.9 million and accumulated losses of approximately HK\$635.5 million.

Charitable Donations

During FY2021, the Group has made donation of VND250 million (approximately HK\$85,000) for epidemic prevention and control during the COVID-19 outbreak (FY2020: Nil).

Major Suppliers and Customers

For FY2021, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 26.6% (2020: approximately 11.7%) and approximately 49.2% (2020: approximately 28%) of the Group's total purchases respectively. For FY2021, sales to the single top customer of the Group and the five top customers of the Group in aggregate accounted for approximately 48.3% (2020: approximately 20.7%) and approximately 76.6% (2020: approximately 63%) of the Group's total turnover respectively.

At all-time during FY2021, none of the Directors or any of their close associates or any Shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

Business Review and Financial Key Performance

The business review of the Group for FY2021 is set out in the Management Discussion and Analysis of this annual report, which form part of this Directors' Report. An analysis of the Group's performance during FY2021 using financial key performance indicators is provided in the section headed "Financial Highlights" on page 2 of this annual report.

Directors' Report

Environmental Policies and Performance

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations that have a significant impact on the Group in relation to its business including health and safety, workplace conditions, labour practice and standard, product responsibility, anti-corruption, employment and the environment aspects. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste.

We have completed our Environmental, Social and Governance (“ESG”) report which contains our ESG information in 2021 and the requirements under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules. The ESG report of the Company for 2021 will be published at the same time of the publication of this annual report on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and of the Company (www.sky-light.com.hk).

Directors

The Directors during the FY2021 and up to the date of this annual report are:

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman and Chief Executive Officer*)
Mr. Lu Yongbin (*Chief Financial Officer and Company Secretary*)

Non-executive Director

Ms. Tang Kam Sau

Independent non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not a multiple of three (3), then the number nearest to one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The directors to retire in every year will be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Company's Articles of Association, a retiring Director shall be eligible for re-election at the AGM at which he/she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

In accordance with the Company's Articles of Association, Mr. Tang Wing Fong Terry and Dr. Cheung Wah Keung shall retire at the forthcoming 2022 AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM.

Directors' Report

Directors' Remuneration and the Five Highest Paid Individuals

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in note 12 and note 13 to the financial statements.

Emolument Policy

The Directors and senior management receive compensation in the form of fees, salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations.

The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective duties and responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme.

Relationships with Stakeholders

The Group recognises that employees are its valuable assets. Thus, the Group recognises the accomplishment of its employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market level. Further, the Group provides a healthy and safe workplace for all employees during the year under review.

The Group also understands that it is important to maintain good relationship with business partners (including our customers and suppliers) and bank enterprises to achieve its long-term goals. During the year under review, there was no material or significant dispute between the Group and its business partners (including our customers and suppliers) or bank enterprises.

Directors' Service Contract

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from 2 July 2015 and ending on 1 July 2021, which was further extended for a further term of three years to 1 July 2024, unless and until terminated by either party giving not less than three months' written notice to the other.

Each of the non-executive Director and the independent non-executive Director, except for Mr. Tse Yat Hong, has been appointed for an initial term of three years commencing from 2 July 2015 and ending on 1 July 2021, which was further extended for a further term of three years to 1 July 2024, unless and until terminated by either party giving not less than three months' written notice to the other.

Mr. Tse Yat Hong has been appointed for an initial term of three years commencing from the 5 December 2017 and ending on 4 December 2020, which was further extended for a further term of three years to 4 December 2023, unless and until terminated by either party giving not less than three months' written notice to the other.

Directors' Report

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the FY2021.

Permitted Indemnity

According to the articles of association of the Company and subject to the provisions of the Hong Kong Companies Ordinance, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Hong Kong Companies Ordinance which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The relevant provision of the articles of association of the Company was in force during the FY2021 and as at the date of this annual report. In addition, the Company has maintained appropriate directors and officers liability insurance cover for the directors and officers of the Company and its subsidiaries in respect of potential legal actions against them.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2021, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange, were as follows:

Directors' Report

Name of Director	Capacity/Nature of interest	Number of Shares or underlying Shares ⁽¹⁾			Total	Approximate percentage of total issued Shares ⁽⁶⁾
		Number of Shares ⁽¹⁾	Corporate interests	Other interests		
Tang Wing Fong Terry	Founder of a discretionary trust		417,717,600 ⁽²⁾		657,373,557	69.00%
Tang Kam Sau	Beneficial owner Interest in a controlled corporation	239,655,957	39,192,000 ⁽³⁾		39,192,000	4.11%
Lu Yongbin	Beneficial owner	3,851,800 ⁽⁴⁾		658,000 ⁽⁴⁾	4,509,800	0.47%
Cheung Wah Keung	Beneficial owner			1,250,000 ⁽⁵⁾	1,250,000	0.13%
Chan Tsu Ming Louis	Beneficial owner			1,250,000 ⁽⁵⁾	1,250,000	0.13%
Tse Yat Hong	Beneficial owner			1,250,000 ⁽⁵⁾	1,250,000	0.13%

Notes:

- (1) The letter "L" denotes the Directors' long position in the Shares.
- (2) The disclosed interest represents the interest in 417,717,600 Shares beneficially held by Fortune Six Investment Limited, which is wholly-owned by CMB Wing Lung (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for CMB Wing Lung (Trustee) Limited), and Tang Wing Fong Terry was a founder of The Trust 168 and was deemed to be interested in the 417,717,600 Shares by virtue of Part XV of the SFO.
- (3) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited's interest in the Company by virtue of the SFO.
- (4) The disclosed interest represents Mr. Lu Yongbin's (i) personal interest in 3,851,800 Shares and (ii) 658,000 underlying Shares in respect of the share options granted under the share option scheme adopted by the Company on 12 June 2015. For details, please refer to the paragraph headed "Share Option Scheme" of this Directors' Report.
- (5) These represent the share options of the Company granted to the respective directors under the Company's share option scheme adopted by the Company on 12 June 2015. For details, please refer to the paragraph headed "Share Option Scheme" of this Directors' Report.
- (6) Based on a total of 952,739,455 Shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executive of the Company had any interest or short position in the Shares or underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

To the best knowledge of the Directors, as at 31 December 2021, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of shareholder	Capacity/Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of total issued Shares ⁽⁴⁾
CMB Wing Lung (Trustee) Limited ⁽²⁾	Trustee	417,717,600 (L)	43.84%
Antopex Limited ⁽²⁾	Nominee for another person	417,717,600 (L)	43.84%
Best One International Limited ⁽²⁾⁽³⁾	Interest of controlled corporation	417,717,600 (L)	43.84%
Fortune Six Investment Limited. ⁽²⁾⁽³⁾	Beneficial owner	417,717,600 (L)	43.84%
Tang Wing Fong Terry ⁽²⁾⁽³⁾	Beneficial owner Founder of a discretionary trust	239,655,957(L) 417,717,600(L)	25.16% 43.84%

Notes:

- (1) The letter "L" denotes a person's long position in the Shares.
- (2) CMB Wing Lung (Trustee) Limited as trustee holds 417,717,600 Shares by virtue of the SFO. The Shares beneficially held by Fortune Six Investment Limited, which is wholly-owned by CMB Wing Lung (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for CMB Wing Lung (Trustee) Limited), of which Mr. Tang Wing Fong Terry is a founder. Each of Antopex Limited, Best One International Limited and CMB Wing Lung (Trustee) Limited was deemed to be interested in the 417,717,600 Shares by virtue of Part XV of the SFO.
- (3) The interest of Mr. Tang Wing Fong Terry, Best One International Limited and Fortune Six Investment Ltd. was also disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
- (4) Based on a total of 952,739,455 Shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Save as disclosed above, as at 31 December 2021, none of the Director is a director or employee of a company which had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' Report

Transaction, Arrangement or Contract of Significance

Save as disclosed in the note 39 to the financial statements, the Group has not entered into any transaction, arrangement or contract of significant in relation to the business of the Group, in which a Director or an entity connected with the Director had a material interest, either directly or indirectly, and to which the Company, its holding company or subsidiaries or any of its Controlling Shareholders (as defined in the Listing Rules) or any of its subsidiaries or fellow subsidiaries was a party subsisted as at 31 December 2021 or at any time during FY2021.

Directors' Interest in Competing Business

During FY2021, none of the Directors has any interest in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the Group's business.

Deed of Non-Competition

Fortune Six Investment Limited and Mr. Tang Wing Fong Terry (collectively the "Controlling Shareholders") have entered into a deed of non-competition on 12 June 2015 (the "Deed") with our Company. Pursuant to the Deed, each of the Controlling Shareholders shall and shall procure that its associates (other than members of the Group) not be engaged, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise, in the existing business activities of our Group or in any other business that may compete, directly or indirectly with such business.

The Company has received confirmations from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they have fully complied with the Deed for the year ended 31 December 2021. The independent non-executive directors have reviewed on the confirmations from the Controlling Shareholders and concluded that the Deed has been complied with and has been effectively enforced.

Directors' rights to acquire shares or debenture

Save as disclosed herein, at no time during FY2021 was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

Purchase, Sale or Redemption of Listed Securities

The Company is empowered by the applicable Companies Law, Cap 22 of the Cayman Islands and the articles of association of the Company to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange and the applicable laws of the Cayman Islands.

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed, any of the listed securities of the Company during FY2021.

Directors' Report

Issue of Equity Securities

The Company did not allot and issue any equity securities including securities convertible into equity securities during FY2021.

Share Option Scheme

A Share Option Scheme (the "Share Option Scheme") was conditionally adopted on 12 June 2015, which became effective on the Listing Date. The key terms of the scheme are set out below:

- (1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:
 - (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
 - (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible Participants refers to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (a) contribution to the development and performance of our Group;
 - (b) quality of work performed for our Group;
 - (c) initiative and commitment in performing his/her duties; and
 - (d) length of service or contribution to our Group.

Directors' Report

- (2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.
- (3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.
- (4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.
- (5) An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.
- (7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 45,607,000 Shares, representing approximately 4.8% of the total number of Shares in issue.

Directors' Report

A summary of the movements of the share options under the Share Option Scheme during the year ended 31 December 2021 are as follows:

Date of grant	15 September 2016 ^(Note 1)	1 December 2016 ^(Note 2)	18 May 2017 ^(Note 3)	26 April 2018 ^(Note 4)	16 May 2019 ^(Note 5)	16 April 2021 ^(Note 6)
Share Options outstanding as at 1 January 2021	7,629,000	4,000,000	7,050,000	7,389,000	10,929,000	–
Share Options granted during the year	–	–	–	–	–	3,000,000
Share Options exercised during the year	–	–	–	–	–	–
Share Options cancelled during the year	–	–	–	–	–	–
Share Options lapsed during the year	279,000	–	417,000	594,000	4,189,000	–
Share Options outstanding as at 31 December 2021	7,350,000	4,000,000	6,633,000	6,804,000	6,740,000	3,000,000
Approximate percentage of the total number of Shares in issue as at the date of this annual report	0.77%	0.42%	0.70%	0.71%	0.71%	0.31%
Exercise price of the Share Options:	HK\$1.70	HK\$1.986	HK\$2.206	HK\$0.94	HK\$0.42	HK\$0.20
Closing price immediately before the date of grant	HK\$1.56	HK\$2.04	HK\$2.21	HK\$0.90	HK\$0.42	HK\$0.18
Exercise period and vesting period	(Note 7)	(Note 8)	(Note 9)	(Note 10)	(Note 11)	(Note 12)

Notes:

- (1) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 15 September 2016. Among the Share Options granted on 15 September 2016, 750,000 Share Options were granted to Mr. Chan Tsu Ming Louis, an independent non-executive Director of the Company and 750,000 Share Options were granted to Dr. Cheung Wah Keung, an independent non-executive Director of the Company.
- (2) On 1 December 2016, 9,900,000 Share Options were granted to certain employees of the Group as "Employee Options" and 10,000,000 Share Options were granted to certain parties who contribute or have contributed to the Group, including an agent developing the Group's sales channels and members of a supplier of the Group as "Contributor Options" based on the terms set out in the Company's announcement dated 1 December 2016.
- (3) On 18 May 2017, share options to subscribe for a total of 15,000,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 18 May 2017. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company.
- (4) On 26 April 2018, share options to subscribe for a total of 12,522,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 26 April 2018. Among the said Share Options granted, 252,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an independent non-executive Director of the Company.

Directors' Report

- (5) On 16 May 2019, 13,110,000 share options were granted to certain eligible employees pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 16 May 2019. Among the said Share Options granted, 294,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an independent non-executive Director of the Company, 750,000 Shares were granted to Dr. Cheung Wah Keung, an independent non-executive Director of the Company and 750,000 Shares were granted to Mr. Chan Tsu Ming Louis, an independent non-executive Director of the Company.
- (6) On 16 April 2021, 3,000,000 share options were granted to certain eligible employees pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 16 April 2021.
- (7) One-third of these share options became vested on 15 September 2017 and shall be exercisable at any time during the period commenced on 15 September 2017 and ending on 14 September 2022 (both dates inclusive), a further one-third became vested on 15 September 2018 and shall be exercisable at any time during the period commenced on 15 September 2018 and ending on 14 September 2023 (both dates inclusive), and the remaining one-third became vested on 15 September 2019 and shall be exercisable at any time during the period commenced on 15 September 2019 and ending on 14 September 2024 (both dates inclusive).
- (8) (a) For the share options granted to the employees who are not senior management, one-third of these share options became vested on 1 December 2017 and shall be exercisable at any time during the period commenced on 1 December 2017 and ending on 30 November 2022 (both dates inclusive), a further one-third became vested on 1 December 2018 and shall be exercisable at any time during the period commenced on 1 December 2018 and ending on 30 November 2023 (both dates inclusive), and the remaining one-third became vested on 1 December 2019 and shall be exercisable at any time during the period commenced on 1 December 2019 and ending on 30 November 2024 (both dates inclusive);
- (b) For the share options granted to persons who are senior management, (i) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2018 and shall be exercisable at any time during the period commenced on 31 January 2018 and ending on 30 January 2023 (both dates inclusive); (ii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2019 and shall be exercisable at any time during the period commenced on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and (iii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options shall become vested on 31 January 2020 and shall be exercisable at any time during the period commenced on 31 January 2020 and ending on 30 January 2025 (both dates inclusive);
- (c) For the share options granted to members of a supplier of the Group, one-third of these share options became vested on 1 December 2017 and shall be exercisable at any time during the period commenced on 1 December 2017 and ending on 30 November 2022 (both dates inclusive), a further one-third became vested on 1 December 2018 and shall be exercisable at any time during the period commenced on 1 December 2018 and ending on 30 November 2023 (both dates inclusive), and the remaining one-third became vested on 1 December 2019 and shall be exercisable at any time during the period commenced on 1 December 2019 and ending on 30 November 2024 (both dates inclusive); and
- (d) For the share options granted to an agent developing the Group's sales channels, (i) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2018 and shall be exercisable at any time during the period commenced on 31 January 2018 and ending on 30 January 2023 (both dates inclusive); (ii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2019 and shall be exercisable at any time during the period commenced on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); (iii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2020 and shall be exercisable at any time during the period commenced on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).
- (9) One-third of these share options became vested on 18 May 2018 and shall be exercisable at any time during the period commenced on 18 May 2018 and ending on 17 May 2023 (both dates inclusive), a further one-third became vested on 18 May 2019 and shall be exercisable at any time during the period commenced on 18 May 2019 and ending on 17 May 2024 (both dates inclusive), and the remaining one-third became vested on 18 May 2020 and shall be exercisable at any time during the period commenced on the 18 May 2020 and ending on 17 May 2025 (both dates inclusive).

Directors' Report

- (10) One-third of these share options became vested on 26 April 2019 and shall be exercisable at any time during the period commenced on 26 April 2019 and ending on 25 April 2024 (both dates inclusive), a further one-third became vested on 26 April 2020 and shall be exercisable at any time during the period commenced on 26 April 2020 and ending on 25 April 2025 (both dates inclusive), and the remaining one-third became vested on 26 April 2021 and shall be exercisable at any time during the period commenced on 26 April 2021 and ending on 25 April 2026 (both dates inclusive).
- (11) One-third of these share options became vested on 16 May 2020 and shall be exercisable at any time during the period commenced on 16 May 2020 and ended on 15 May 2021 (both dates inclusive), a further one-third became vested on 16 May 2021 and shall be exercisable at any time during the period commenced on 16 May 2021 and ending on 15 May 2022 (both dates inclusive), and the remaining one-third shall become vested on 16 May 2022 and shall be exercisable at any time during the period commencing on 16 May 2022 and ending on 15 May 2023 (both dates inclusive).
- (12) One-third of these share options shall become vested on 16 April 2022 and shall be exercisable at any time during the period commenced on 16 April 2022 and ending on 15 April 2023 (both dates inclusive), a further one-third shall become vested on 16 April 2023 and shall be exercisable at any time during the period commencing on 16 April 2023 and ending on 15 April 2024 (both dates inclusive), and the remaining one-third shall become vested on 16 April 2024 and shall be exercisable at any time during the period commencing on 16 April 2024 and ending on 15 April 2025 (both dates inclusive).
- (13) No participant was granted with share options in excess of the individual limit as set out in the Share Option Scheme.

The valuation of options granted under the Share Option Scheme was conducted based on the binomial model with the following assumptions:

At grant date	15 September 2016	18 May 2017	26 April 2018	16 May 2019	16 April 2021
	1 December 2016				
Expected volatility (per year)	45.69%– 65.81%	57.63%– 61.27%	59.03%– 62.75%	59.67%– 61.87%	66.12%
Expected life of options (year)	6.0–8.17	6.0–8.0	6.0–8.0	2.0–4.0	2.0-4.0
Average risk-free interest rate (per year)	1.44%– 2.09%	1.16%– 1.22%	2.11%– 2.13%	1.56%– 1.69%	1.09%– 2.39%
Expected dividend yield (per year)	3.93%–5.32%	5.32%	5.74%	5.32%	0%
Estimated rate of leaving service (per year)	0%–25%	25%	27.5%	27.5%	0%

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The amount will either be transferred to share capital when the related share options are exercised, or be transferred to retained profits when the related share options expire or be forfeited.

The Group recognised share option expense of approximately HK\$0.3 million during FY2021 (FY2020: recognised expense of approximately HK\$0.3 million) in relation to the share options granted by the Company.

The fair value of the share option granted during FY2021 was approximately HK\$0.27 million.

Pension Scheme

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

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

Directors' Report

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

During the years ended 31 December 2020 and 2021, the Group had no forfeited contributions under the PRC Retirement Scheme and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2020 and 2021 under the PRC Retirement Scheme and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

Related Party Transactions

The details of the related party transactions are set out in note 39 to the financial statements and these related party transactions do not constitute connected and/or continuing connected transactions as defined in Chapter 14A of the Listing Rules for FY2021. The Company confirms that in relation to the related party transactions for FY2021, it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2021 up to the date of this annual report.

Tax Relief

The Company is not aware of any relief from taxation to which the Shareholders are entitled by reason of their holding of the Shares.

Auditors

Ernst & Young retired as auditors of the Company on 26 May 2021. RSM Hong Kong was appointed as auditors of the Company on 26 May 2021.

Save for the abovementioned changes, in any of the preceding three years, the auditors of the Company had not been changed.

RSM Hong Kong will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment.

By the order of the Board
Tang Wing Fong Terry
Chairman

Hong Kong
29 March 2022

Independent Auditor's Report



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To the shareholders of Sky Light Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Sky Light Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 57 to 139, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

Basis for Opinion

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

Independent Auditor's Report



Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment on trade and factoring receivables</i></p> <p>Refer to notes 4(l) and 4(w) of significant accounting policies, note 5(ii) of key sources of estimation uncertainty and note 23 to the consolidated financial statements respectively.</p> <p>At 31 December 2021, the carrying amount of trade and factoring receivables amounted to HK\$44,223,000 (net of impairment losses of HK\$3,337,000) which represented 8.9% of the Group's total assets. Assessment of the recoverability of trade and factoring receivables involves a high level of management judgement. Management used a provision matrix to calculate expected credit losses ("ECL") for trade and factoring receivables based on the combination of individual and collective assessment. The calculation of ECL is based on the Group's historical default rates, forward-looking information, and specific factors that management considered in the estimation of ECL including the type of customers, ageing of the balances, recent historical payment patterns and forecast economic conditions.</p> <p>We identified assessing the recoverability of trade and factoring receivables as key audit matter because the assessment of the recoverability of trade and factoring receivables and recognition of impairment losses are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.</p>	<p>Our procedures in relation to impairment assessment on trade and factoring receivables included:</p> <ul style="list-style-type: none">• Evaluating the design and implementation of internal controls which govern credit control, debt collection and estimates of ECL;• Testing the ageing analysis of the trade and factoring receivables, on a sample basis, to the source documents, including sales invoices and goods delivery notes;• For trade and factoring receivables with individually assessed credit risk exposure, discussing with management on the identification and analysed the recoverability of such receivables;• For trade and factoring receivables with credit risk exposure assessed based on provision matrix, assessing the ECL provision by: (i) evaluating management's assumptions used in establishing the ECL provision matrix; (ii) examining the information used by management to form such judgements, including testing the accuracy of historical default data and ageing of trade and factoring receivables, and evaluating the adjustments made on the historical loss rates based on the forward-looking information; and (iii) examining the actual losses recorded during the current year;• With the assistance of our internal valuation experts, testing the calculation of the historical loss rate and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions; and• Inspecting the cash receipts from customers after the year end relating to the trade and factoring receivable balances as at 31 December 2021, on a sample basis.

Independent Auditor's Report



Key Audit Matters *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment assessment on property, plant and equipment, intangible assets and right-of-use assets (collectively, the "long-term assets")

Refer to notes 4(d), 4(f), 4(g) and 4(v) of significant accounting policies, note 5(iv) of key sources of estimation uncertainty and notes 16, 17 and 18 to the consolidated financial statements respectively.

As at 31 December 2021, the Group's long-term assets amounted to HK\$75,816,000 which represented 15.3% of the Group's total assets.

The Group incurred losses for the year ended 31 December 2021. This has increased the risk that the carrying amounts of long-term assets may be impaired.

Long-term assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The impairment test and assessment of long-term assets are largely based on management's expectations and estimates of future operating results of the Group's cash-generating units.

We focused on this area because of the significance of the long-term assets balance and the assessment involves significant judgements and estimates made by management.

Our procedures in relation to impairment assessment on long-term assets included:

- Evaluating management's assumptions used in cash flow forecast by comparing against previous budget and reviewing management's long-term strategic plans and historical trend;
- Assessing methodologies and key assumptions used in external expert's evaluation report on fair value less cost of disposal;
- Evaluating the independence, qualifications, expertise and objectivity of the external expert;
- Involving our internal expert to assess the valuation model and the weighted average cost of capital used for value in use; and
- Performing sensitivity analysis on changes in key assumptions.

Independent Auditor's Report



Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Estimation of the allowance for slow moving inventories</i></p> <p>Refer to note 4(h) of significant accounting policies, note 5(iii) of key sources of estimation uncertainty and note 22 to the consolidated financial statements respectively.</p> <p>As at 31 December 2021, the carrying amount of the Group's inventories amounted to HK\$200,684,000, net of allowance for inventories of HK\$91,575,000, which represented 40.6% of the Group's total assets.</p> <p>The Group's principal activities are manufacture and distribution of home surveillance cameras, digital imaging products and other related products. The Group's inventories are subject to the significant risk of obsolescence accompanied with the rapid technology development of digital products. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realisable value.</p> <p>We focused on this area because of the significance of the inventories balance and the management is required to estimate the respective future selling prices and selling costs to determine if any allowance should be made or should be reversed.</p>	<p>Our procedures in relation to allowance for slow moving inventories included:</p> <ul style="list-style-type: none">• Noting any slow moving and obsolete inventories during our attendance of the physical inventory counts at year end;• Evaluating the process, methods and assumptions used by management to make the allowance for inventories against slow-moving, excess and/or obsolete items;• Testing inventories to assess if they are stated at the lower of cost or net realisable value by comparing the actual sales value to the carrying value of selected samples of inventories;• Testing on a sample basis the inventory ageing analysis of the Group at year end, and reviewing subsequent usage and sales of inventories after year end, taking into consideration the impact of changes in technology and customers' preference and our knowledge of the Group's business operations and the industry in which the Group operates; and• Challenging management's assessment of the adequacy of the allowance for slow moving inventories based on the results of our procedures.

Independent Auditor's Report



Other Information

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

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

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.

Independent Auditor's Report



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Liu Eugene.

RSM Hong Kong
Certified Public Accountants
29 March 2022

Consolidated Statement of Profit or Loss

Year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
REVENUE	9	715,093	437,111
Cost of sales		(593,335)	(376,040)
Gross profit		121,758	61,071
Other income and gains	9	15,142	17,397
Selling and distribution expenses		(34,059)	(32,795)
Administrative expenses		(50,455)	(49,407)
Research and development expenses	10	(52,803)	(50,119)
Other expenses		(1,834)	(15,038)
Share of loss of an associate		(162)	–
Finance costs	11	(1,870)	(2,172)
LOSS BEFORE TAX	10	(4,283)	(71,063)
Income tax credit	14	871	–
LOSS FOR THE YEAR		(3,412)	(71,063)
Attributable to:			
Owners of the Company		(3,853)	(64,021)
Non-controlling interests		441	(7,042)
		(3,412)	(71,063)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	15		
Basic		HK(0.4) cent	HK(6.7) cents
Diluted		HK(0.4) cent	HK(6.7) cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
LOSS FOR THE YEAR	(3,412)	(71,063)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	5,492	14,721
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investment designated at fair value through other comprehensive income	2,685	(1,689)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	8,177	13,032
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,765	(58,031)
Attributable to:		
Owners of the Company	4,261	(50,569)
Non-controlling interests	504	(7,462)
	4,765	(58,031)

Consolidated Statement of Financial Position

31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	40,500	40,967
Intangible assets	17	7,038	8,754
Right-of-use assets	18	28,278	34,080
Investment property	19	–	4,192
Investment in an associate	20	2,395	–
Equity investment designated at fair value through other comprehensive income (“FVTOCI”)	21	27,072	24,387
Prepayments and other receivables	26	–	3,016
Total non-current assets		105,283	115,396
CURRENT ASSETS			
Inventories	22	200,684	147,924
Trade and factoring receivables	23	44,223	64,697
Financial asset at fair value through profit or loss (“FVTPL”)	25	5,022	5,022
Prepayments and other receivables	26	33,058	23,566
Restricted and pledged bank deposits	27	5,753	4,498
Cash and cash equivalents	27	96,188	97,486
Total current assets		384,928	343,193
Non-current asset classified as held for sale	24	4,032	–
Total current assets		388,960	343,193
CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	31,880	12,003
Trade payables	29	118,596	131,220
Other payables and accruals	30	92,252	62,101
Lease liabilities	31	14,028	12,300
Total current liabilities		256,756	217,624
NET CURRENT ASSETS		132,204	125,569
TOTAL ASSETS LESS CURRENT LIABILITIES		237,487	240,965

Consolidated Statement of Financial Position

31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	32	–	871
Lease liabilities	31	16,515	24,264
Total non-current liabilities		16,515	25,135
Net assets		220,972	215,830
EQUITY			
Equity attributable to owners of the Company			
Share capital	33	9,528	9,528
Reserves	35	212,417	207,779
		221,945	217,307
Non-controlling interests		(973)	(1,477)
Total equity		220,972	215,830

Approved by the Board of Directors on 29 March 2022 and are signed on its behalf by:

Mr. Tang Wing Fong Terry
Director

Mr. Lu Yongbin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

Note	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000 (Note 35 ^{(b)(v)})	Fair value reserve of equity investment designated at FVTOCI HK\$'000	Capital reserve HK\$'000 (Note 35 ^{(b)(iv)})	Share-based payment reserve HK\$'000 (Note 35 ^{(b)(iv)})	Statutory reserve HK\$'000 (Note 35 ^{(b)(iv)})	Foreign currency translation reserve HK\$'000 (Note 35 ^{(b)(iv)})	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2021	9,528	752,853	(6,652)	148,807	24,227	37,050	(20,741)	(727,765)	217,307	(1,477)	215,830
Loss for the year	-	-	-	-	-	-	-	(3,853)	(3,853)	441	(3,412)
Other comprehensive income for the year:											
Changes in fair value of equity investment designated at FVTOCI, net of tax	-	-	2,685	-	-	-	-	-	2,685	-	2,685
Exchange differences on translation of foreign operations	-	-	-	-	-	-	5,429	-	5,429	63	5,492
Total comprehensive income for the year	-	-	2,685	-	-	-	5,429	(3,853)	4,261	504	4,765
Lapse of share option	-	-	-	-	(9,452)	-	-	9,452	-	-	-
Equity-settled share option arrangements	34	-	-	-	377	-	-	-	377	-	377
At 31 December 2021	9,528	752,853*	(3,967)*	148,807*	15,152*	37,050*	(15,312)*	(722,166)*	221,945	(973)	220,972

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the Company											
	Note	Share capital HK\$'000	Share premium HK\$'000 (Note 35 ^{(b)(ii)})	Fair value reserve of equity investment designated at FVTOCI HK\$'000	Capital reserve HK\$'000 (Note 35 ^{(b)(ii)})	Share-based payment reserve HK\$'000 (Note 35 ^{(b)(ii)})	Statutory reserve HK\$'000 (Note 35 ^{(b)(iv)})	Foreign currency translation reserve HK\$'000 (Note 35 ^{(b)(v)})	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2020		9,528	752,853	(4,963)	148,807	23,715	37,050	(35,882)	(663,744)	267,364	5,985	273,349
Loss for the year		-	-	-	-	-	-	-	(64,021)	(64,021)	(7,042)	(71,063)
Other comprehensive income for the year:												
Changes in fair value of equity investment designated at FVTOCI, net of tax		-	-	(1,689)	-	-	-	-	-	(1,689)	-	(1,689)
Exchange differences on translation of foreign operations		-	-	-	-	-	15,141	-	15,141	(420)	14,721	
Total comprehensive income for the year		-	-	(1,689)	-	-	15,141	(64,021)	(50,569)	(7,462)	(58,031)	
Equity-settled share option arrangements	34	-	-	-	-	512	-	-	512	-	512	
At 31 December 2020		9,528	752,853*	(6,652)*	148,807*	24,227*	37,050*	(20,741)*	(727,765)*	217,307	(1,477)	215,830

* These reserve accounts comprise the consolidated reserves of HK\$212,417,000 (2020: HK\$207,779,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:		(4,283)	(71,063)
Adjustments for:			
Finance costs	11	1,870	2,172
Interest income	9	(153)	(718)
Covid-19-related rent concessions from lessors		–	(239)
Share of loss of an associate		162	–
Reversal of allowance for inventories, net	10	(25,837)	(1,733)
Depreciation of property, plant and equipment	10, 16	18,010	20,224
Depreciation of right-of-use assets	10, 18	14,406	14,626
Amortisation of intangible assets	10, 17	1,842	1,740
Depreciation of investment property	10, 19	160	158
Gain on disposal of right-of-use assets	10	–	(47)
Gain on disposal of financial assets at FVTPL	10	–	(144)
(Reversal of impairment losses)/impairment losses of prepayments and other receivables	10	(1,293)	1,207
(Reversal of impairment losses)/impairment losses of trade and factoring receivables	10	(475)	566
Loss on disposal of property, plant and equipment	10	255	922
Equity-settled share option expense		377	512
Prepayments and other receivables written off	10	1,561	–
Trade and other payables written off	9, 10	(6,481)	–
Deposit receipt in advance forfeited by customers	9, 10	(3,528)	–
Operating loss before working capital changes		(3,407)	(31,817)
Increase in inventories		(29,263)	(17,103)
Decrease in trade and factoring receivables		20,936	15,872
Decrease in amount due from a related party		–	398
Increase in prepayments and other receivables		(6,744)	(3,920)
Increase in restricted and pledged bank deposits		(1,255)	(3,605)
(Decrease)/increase in trade payables		(6,326)	24,689
Decrease in amounts due to related parties		–	(46)
Increase in other payables and accruals		33,862	6,504
Cash generated from/(used in) operations		7,803	(9,028)
Finance costs paid		(1,870)	(2,172)
Net cash flows generated from/(used in) operating activities		5,933	(11,200)

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Net cash flows generated from/(used in) operating activities		5,933	(11,200)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets		(20,476)	(3,860)
Disposal of financial assets at FVTPL		–	2,790
Interest received		153	718
Proceeds from disposal of property, plant and equipment		2,041	3,268
Payment for acquisition of an associate		(2,557)	–
Net cash flows (used in)/generated from investing activities		(20,839)	2,916
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings raised		115,398	29,187
Repayments of bank borrowings		(95,521)	(33,862)
Principal portion of lease payments		(14,495)	(13,641)
Net cash flows generated from/(used in) financing activities		5,382	(18,316)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		97,486	106,899
Effect of foreign exchange rate changes, net		8,226	17,187
CASH AND CASH EQUIVALENTS AT END OF YEAR		96,188	97,486
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	96,188	97,486

Notes to the Consolidated Financial Statements

31 December 2021

1. General Information

Sky Light Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company’s registered office address is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 2 July 2015.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

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

In the opinion of the directors of the Company, the ultimate holding company of the Company is Fortune Six Investment Ltd., a company incorporated in the British Virgin Islands, and Mr. Tang Wing Fong, Terry is the ultimate controlling party of the Company.

2. Basis of Preparation

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

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

Notes to the Consolidated Financial Statements

31 December 2021

3. Adoption of New and Revised HKFRSs

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform — Phase 2

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

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

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").

The amendments do not have an impact on these consolidated financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

Notes to the Consolidated Financial Statements

31 December 2021

3. Adoption of New and Revised HKFRSs *(Continued)*

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2021. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Business Combination — Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37 Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements — Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 Income Taxes — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies

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

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

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

(a) Consolidation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(a) Consolidation *(Continued)*

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

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

(b) Associate

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(c) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes. 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.

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

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

Buildings	3% to 5%
Leasehold improvements	20%
Machinery	10% to 33%
Motor vehicles	10% to 25%
Office and other equipment	20% to 33%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

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

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

(e) Investment property

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

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The property is depreciated over its estimated useful life using the straight-line method, at the rate of 2.86% per annum.

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(f) Leases

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

(i) The Group as a lessee

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

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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.

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(f) Leases *(Continued)*

(i) The Group as a lessee *(Continued)*

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

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

(ii) The Group as a lessor

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(g) Intangible assets

(i) Internally-generated intangible assets — research and development expenditure

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

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(ii) Intangible assets acquired separately — software and trademarks

Software and trademarks are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 3 to 10 years.

(h) Inventories

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

(i) Contract assets and contract liabilities

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(j) Recognition and derecognition of financial instruments

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

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

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

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

(k) Financial assets

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(k) Financial assets *(Continued)*

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.
- FVTOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

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

(l) Trade, factoring and other receivables

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(m) Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(n) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

(o) Financial liabilities and equity instruments

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

(i) Borrowings

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(o) Financial liabilities and equity instruments *(Continued)*

(ii) Trade and other payables

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

(iii) Equity instruments

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

(p) Revenue and other income

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

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Revenue from provision of manufacturing services is recognised when the services are rendered.

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

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(q) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(r) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Where the terms of an equity-settled share-based payments are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled share-based payments is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the share-based payments is recognised immediately. This includes any share-based payments where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new share-based payments is substituted for the cancelled share-based payments, and is designated as a replacement share-based payments on the date that it is granted, the cancelled and new share-based payments are treated as if they were a modification of the original share-based payments, as described in the previous paragraph.

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(s) Borrowing costs

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

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

(t) Government grants

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

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

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

(u) Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(u) Taxation *(Continued)*

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(v) Impairment of non-financial assets

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(w) Impairment of financial assets

The Group recognises a loss allowance for ECL on trade and factoring receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

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

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

Significant increase in credit risk

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(w) Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(w) Impairment of financial assets (Continued)

Definition of default

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

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

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

Credit-impaired financial assets

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

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

Write-off policy

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

Notes to the Consolidated Financial Statements

31 December 2021

4. Significant Accounting Policies *(Continued)*

(w) Impairment of financial assets (Continued)

Measurement and recognition of ECL

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

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

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

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

(x) Provisions and contingent liabilities

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

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

(y) Events after the reporting period

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

Notes to the Consolidated Financial Statements

31 December 2021

5. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

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

(i) Significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(ii) Legal titles of the buildings

As stated in note 16 to the consolidated financial statements, the titles of the buildings acquired were not transferred to the Group as at 31 December 2021. Despite the fact that the Group has not obtained the relevant legal titles, the directors determined to recognise the buildings as property, plant and equipment on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling the buildings.

Key sources of estimation uncertainty

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

(i) Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances.

The carrying amount of property, plant and equipment as at 31 December 2021 were HK\$40,500,000 (2020: HK\$40,967,000).

Notes to the Consolidated Financial Statements

31 December 2021

5. Critical Judgements and Key Estimates *(Continued)*

Key sources of estimation uncertainty (Continued)

(ii) Impairment of trade and factoring receivables

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

As at 31 December 2021, the carrying amount of trade and factoring receivables is HK\$44,223,000 (2020: HK\$64,697,000), net of allowance for impairment losses of HK\$3,337,000 (2020: HK\$3,799,000).

(iii) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

As at 31 December 2021, the carrying amount of inventories is HK\$200,684,000 (2020: HK\$147,924,000), net of allowance for slow moving inventories of HK\$91,575,000 (2020: HK\$208,511,000).

Notes to the Consolidated Financial Statements

31 December 2021

5. Critical Judgements and Key Estimates *(Continued)*

Key sources of estimation uncertainty (Continued)

(iv) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Fair value measurement of investment in unlisted equity

In the absence of quoted market prices in an active market, the directors estimate the fair value of the Group's investment in Kandao Technology Co., Ltd. ("Kandao"), details of which are set out in note 21 to the consolidated financial statements, by considering information from a variety of sources, including the latest financial information, the historical data on market volatility as well as the price and industry and sector performance of Kandao.

The carrying amount of the investment in Kandao as at 31 December 2021 was HK\$27,072,000 (2020: HK\$24,387,000).

(vi) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Consolidated Financial Statements

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6. Financial Risk Management

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollars ("US\$") exchange rate and Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in loss before tax HK\$'000	Increase/ (decrease) In equity* HK\$'000
As at 31 December 2021			
If HK\$ weakens against US\$	5	(1,140)	1,140
If HK\$ strengthens against US\$	5	1,140	(1,140)
If HK\$ weakens against RMB	5	(136)	136
If HK\$ strengthens against RMB	5	136	(136)
As at 31 December 2020			
If HK\$ weakens against US\$	5	2,914	(2,914)
If HK\$ strengthens against US\$	(5)	(2,914)	2,914
If HK\$ weakens against RMB	5	(2,981)	2,981
If HK\$ strengthens against RMB	(5)	2,981	(2,981)

Notes to the Consolidated Financial Statements

31 December 2021

6. Financial Risk Management *(Continued)*

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and factoring receivables) and from its financing activities, including deposits with banks and financial institutions and foreign exchange transactions.

(i) Credit risk of deposits with banks and financial institutions

As at 31 December 2021 and 2020, all bank balances and bank deposits are held at reputable financial institutions and there is no significant concentration risk to a single counterparty and there is no history of defaults from these counterparties. The ECL is close to zero.

(ii) Credit risk of trade and factoring receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group's largest customer shared nearly 58.6% and 24.5% respectively of the trade and factoring receivables at as 31 December 2021 and 2020. The Group has policies and procedures to monitor the collection of the trade and factoring receivables to limit the exposure to the non-recovery of the receivables and there is no recent history of default for the Group's largest customer.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade and factoring receivables generally are due within three months after the date of billing. Debtors with balances that are more than one month past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and factoring receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. The average ECL rate of trade and factoring receivables as at 31 December 2021 and 2020 is close to 7.0% and 5.5% respectively. Reversal of impairment losses of HK\$475,000 (2020: impairment losses of HK\$566,000) of trade and factoring receivables was recognised for the year ended 31 December 2021.

Notes to the Consolidated Financial Statements

31 December 2021

6. Financial Risk Management *(Continued)*

(b) Credit risk (Continued)

(ii) Credit risk of trade and factoring receivables *(Continued)*

The movements in the allowance for impairment losses are as follows:

	2021 HK\$'000	2020 HK\$'000
At beginning of the year	3,799	3,229
(Reversal of impairment)/impairment losses recognised	(475)	566
Exchange difference	13	4
At the end of the year	3,337	3,799

(iii) Credit risk of deposits and other receivables

Deposits and other receivables were mainly rental deposit and utilities and trade deposits. The credit quality of deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. Given there is no history of defaults from these counterparties, the directors of the Company are of the opinion that the risk of default is not significant and does not expect any losses from non-performance by the counterparties. Therefore, ECL rate of the deposits and other receivables is assessed to be minimal.

Notes to the Consolidated Financial Statements

31 December 2021

6. Financial Risk Management *(Continued)*

(c) Liquidity risk

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

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

	On demand or less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2021					
Trade payables	118,596	–	–	118,596	118,596
Other payables and accruals	44,713	–	–	44,713	44,713
Interest-bearing bank borrowings	31,980	–	–	31,980	31,880
Lease liabilities	15,139	12,828	4,261	32,228	30,543
At 31 December 2020					
Trade payables	131,220	–	–	131,220	131,220
Other payables and accruals	21,911	–	–	21,911	21,911
Interest-bearing bank borrowings	12,029	–	–	12,029	12,003
Lease liabilities	13,701	10,791	14,936	39,428	36,564

Notes to the Consolidated Financial Statements

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6. Financial Risk Management *(Continued)*

(d) Interest rate risk

The Group's exposure to interest rate risk mainly arises from its bank deposits and bank borrowing. These deposits and borrowing bear interests at variable rates that vary with the then prevailing market condition.

At 31 December 2021 and 2020, it is estimated that a general increase/(decrease) of 100 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's loss for the year as follows:

Impact on loss for the year:

	2021 HK\$'000	2020 HK\$'000
Increase/(decrease) in interest rate 100 basis points	(570)	(783)
(100) basis points	570	783

(e) Categories of financial instruments

	2021 HK\$'000	2020 HK\$'000
Financial assets:		
Financial assets at FVTPL	5,022	5,022
Financial assets at FVTOCI	27,072	24,387
Financial assets at amortised cost	165,058	177,549
Financial liabilities:		
Financial liabilities at amortised cost	225,732	201,698

(f) Fair values

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

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7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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

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

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

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

(a) Disclosures of level in fair value hierarchy:

Description	Fair value measurements using:			Total
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	2021 HK\$'000
Recurring fair value measurements:				
Financial assets at FVTPL				
Investment in a life insurance policy (*)	–	5,022	–	5,022
Financial assets at FVTOCI				
Unlisted equity investment	–	–	27,072	27,072
	–	5,022	27,072	32,094

Description	Fair value measurements using:			Total
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	2020 HK\$'000
Recurring fair value measurements:				
Financial assets at FVTPL				
Investment in a life insurance policy (*)	–	5,022	–	5,022
Financial assets at FVTOCI				
Unlisted equity investment	–	–	24,387	24,387
	–	5,022	24,387	29,409

(*) The fair value of investment in life insurance policy is determined by reference to the Cash Surrender Value as provided by the insurance company.

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7. Fair Value Measurements *(Continued)*

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

	Financial assets at FVTOCI	
	2021 HK\$'000	2020 HK\$'000
At 1 January	24,387	26,076
Total gain or (loss) recognised in other comprehensive income	2,685	(1,689)
At 31 December	27,072	24,387

The total gain or loss recognised in other comprehensive income are presented in fair value changes of equity investments designated at fair value through other comprehensive income in the statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the Board of Directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. Discussions of valuation processes and results are held between the chief financial officer and the Board of Directors at least twice a year.

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

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7. Fair Value Measurements *(Continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements (Continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value assets	
					2021 HK\$'000	2020 HK\$'000
Unlisted equity investments classified as financial assets at FVTOCI	Discounted cash flows	Weighted average cost of capital	17.9% (2020: 13.2%)	Decrease	27,072	24,387
		Gross margin rate	42.0%-43.5% (2020: 40.0%)	Increase		
		Sales growth rate	15.0%-35.0% (2020: 14.8%-35.0%)	Increase		

The Group did not have any financial liabilities measured at fair value as at 31 December 2021 and 2020.

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2020: Nil).

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8. Operating Segment Information

The Group focuses primarily on the manufacture and distribution of home surveillance cameras, digital imaging products and other electronic products during the year.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers for the purposes of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the Directors reviewed the financial results of the Group as a whole. Therefore, the operations of the Group constitute one single reportable segment. Accordingly, no operating segment is presented.

Geographical information

(a) Revenue from external customers

	2021 HK\$'000	2020 HK\$'000
United States of America	473,334	265,059
Mainland China	76,720	46,009
European Union	132,098	93,242
Hong Kong	1,571	3,028
Other countries/regions	31,370	29,773
	715,093	437,111

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2021 HK\$'000	2020 HK\$'000
Mainland China	55,903	66,284
Hong Kong	1,814	5,087
Other countries/regions	18,099	19,638
	75,816	91,009

The non-current assets information above is based on the locations of the assets and excludes financial instruments and investment in an associate.

Notes to the Consolidated Financial Statements

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8. Operating Segment Information *(Continued)*

Information about major customers

Revenue derived from sales to individual customers, which accounted for 10% or more of the total revenue, is set out below:

	2021 HK\$'000	2020 HK\$'000
Customer A	345,678	68,492
Customer B	92,116	47,008
Customer C	N/A ¹	90,513

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

9. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	2021 HK\$'000	2020 HK\$'000
Revenue from contracts with customers		
Types of goods or services		
Sale of industrial products	701,969	432,427
Provision of manufacturing services	13,124	4,684
Total revenue from contracts with customers	715,093	437,111
Timing of revenue recognition		
Goods transferred at a point in time	715,093	437,111

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Notes to the Consolidated Financial Statements

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9. Revenue, Other Income and Gains *(Continued)*

	2021 HK\$'000	2020 HK\$'000
Other income and gains		
Compensation income from a customer	–	8,208
Deposit receipt in advance forfeited by customers	3,528	–
Trade and other payables written off	6,481	–
Bank interest income	153	718
Government grants:		
Related to income*	3,602	7,548
Gain on derecognition of financial assets measured at FVTPL	–	144
Rental income	441	499
Others	937	280
	15,142	17,397

* The amount mainly represents rewards or subsidies for research and financing activities received from the local government without unfulfilled conditions.

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10. Loss Before Tax

The Group's loss before tax is arrived at after charging/(crediting):

	Note	2021 HK\$'000	2020 HK\$'000
Cost of inventories sold		539,989	371,123
Cost of services provided		53,346	4,917
Depreciation of investment property	19	160	158
Depreciation of property, plant and equipment	16	18,010	20,224
Depreciation of right-of-use assets	18	14,406	14,626
Amortisation of intangible assets (note (i))	17	1,842	1,740
Direct operating expenses of investment property that generate rental income		86	46
Research and development expenses		52,803	50,119
Auditors' remuneration		1,118	2,339
Employee benefit expense (excluding directors' and chief executive's remuneration (note 12)):			
Wages and salaries		110,832	92,185
Pension scheme contributions (note (ii))		8,767	4,191
Equity-settled share option expense		313	339
		119,912	96,715
Foreign exchange differences, net (note (iii))		750	10,698
Allowance for inventories		14,342	25,208
Reversal of allowance for inventories (note (iv))		(40,179)	(26,941)
Reversal of allowance for inventories, net (included in cost of inventories sold)		(25,837)	(1,733)
Loss on disposal of property, plant and equipment (note (iii))		255	922
(Reversal of impairment losses)/impairment losses of trade and factoring receivables (note (iii))	23	(475)	566
(Reversal of impairment losses)/impairment losses of prepayments and other receivables (note (iii))		(1,293)	1,207
Gain on disposal of right-of-use assets		–	(47)
Gain on disposal of financial assets at FVTPL		–	(144)
Prepayments and other receivables written off (note (iii))		1,561	–
Trade and other payables written off	9	(6,481)	–
Deposit receipt in advance forfeited by customers	9	(3,528)	–

Note:

- (i) The amortisation of software is included in "Research and development expenses" and the amortisation of other intangible assets is included in "Selling and distribution expenses" in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

31 December 2021

10. Loss Before Tax *(Continued)*

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

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

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

During the years ended 31 December 2020 and 2021, the Group had no forfeited contributions under the PRC Retirement Scheme and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2020 and 2021 under the PRC Retirement Scheme and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

- (iii) The impairment losses of trade and factoring receivables, the impairment losses of prepayments and other receivables, loss on disposal of property, plant and equipment, prepayments and other receivables written off and foreign exchange differences, net are included in "Other expenses" in the consolidated statement of profit or loss.
- (iv) The reversal of allowance for inventories for both years was mainly resulted from the utilisation of the inventories of which allowance had previously been provided.

11. Finance Costs

An analysis of finance costs is as follows:

	2021 HK\$'000	2020 HK\$'000
Interest on:		
Bank borrowings	296	258
Lease liabilities	1,574	1,914
	1,870	2,172

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12. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 HK\$'000	2020 HK\$'000
Fees	788	788
Other remunerations:		
Salaries, allowances and benefits in kind	1,349	1,222
Performance related bonuses	32	27
Equity-settled share option expense	64	173
Pension scheme contributions	117	59
	1,562	1,481
	2,350	2,269

During the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the consolidated financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

	2021			2020		
	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000	Fees HK\$'000	Equity-settled share option expense HK\$'000	Total remuneration HK\$'000
Mr. Chan Tsu Ming Louis	240	15	255	240	31	271
Dr. Cheung Wah Keung	240	15	255	240	31	271
Mr. Tse Yat Hong	240	25	265	240	76	316
	720	55	775	720	138	858

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

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12. Directors' and Chief Executive's Remuneration (Continued)

(b) Executive directors and non-executive director

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2021						
Executive directors:						
Mr. Tang Wing Fong Terry	68	822	–	–	18	908
Mr. Lu Yongbin	–	527	32	9	99	667
	68	1,349	32	9	117	1,575
Non-executive director:						
Ms. Tang Kam Sau	–	–	–	–	–	–
	68	1,349	32	9	117	1,575

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2020						
Executive directors:						
Mr. Tang Wing Fong Terry	68	748	–	–	17	833
Mr. Lu Yongbin	–	474	27	35	42	578
	68	1,222	27	35	59	1,411
Non-executive directors:						
Ms. Tang Kam Sau	–	–	–	–	–	–
Mr. Wu Yongmou (resigned on 27 July 2020)	–	–	–	–	–	–
	68	1,222	27	35	59	1,411

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

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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13. Five Highest Paid Employees

The five highest paid employees during the year included one director (2020: Nil), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the four (2020: five) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2021 HK\$'000	2020 HK\$'000
Salaries, allowances and benefits in kind	3,832	4,622
Performance related bonuses	67	–
Equity-settled share option expense	139	165
Pension scheme contributions	135	119
	4,173	4,906

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	2	1
	4	5

During the prior year, share options were granted to five non-director and non-chief executive highest paid employee in respect of their services to the Group, further details of which are included in the disclosure in note 34 to the consolidated financial statements. The fair value of such options which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant, and the amount included in the consolidated financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

During the year, no emoluments were paid by the Group to the above highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

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14. Income Tax Credit

Income tax credit has been recognised in profit or loss as following:

	2021 HK\$'000	2020 HK\$'000
Deferred tax (note 32)	(871)	–

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

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

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available for one (2020: one) of the Group's principal operating subsidiaries, Sky Light Shenzhen, since it was recognised as a High and New Technology Enterprise and entitled to a preferential tax rate of 15% during the year.

The Group's subsidiaries in the United States are subject to the federal tax at a rate of 21% (2020: 21%), and also subject to the statutory applicable state corporate income tax at a rate of 7% (2020: 7%).

The Group's subsidiary in the United Kingdom is subject to corporate income tax at a rate of 19% (2020: 19%).

The Group's subsidiary in Vietnam is subject to corporate income tax at a rate of 20%. Pursuant to the relevant laws and regulations in Vietnam, entities in Vietnam engaged in qualified investment projects are eligible for Vietnam CIT exemption for the first year to the second year, and a 50% reduction for the third year to the sixth year starting from the year in which the entities first generate income from the investment projects, on the assessable profits from such investment projects.

No provisions for Mainland China, Vietnam, United States and United Kingdom corporate income tax have been made in the consolidated financial statements since the Group has no assessable profits derived for the year.

No provision for Hong Kong corporate income tax has been made in the consolidated financial statements since the Group has sufficient tax losses brought forward to set off against current year's assessable profit.

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14. Income Tax Credit *(Continued)*

The reconciliation between the income tax credit and the product of loss before tax multiplied by the PRC CIT rate is as follows:

	2021 HK\$'000	2020 HK\$'000
Loss before tax	(4,283)	(71,063)
Tax at the PRC CIT rate of 25% (2020: 25%)	(1,071)	(17,766)
Tax effect of income that is not taxable	(2,757)	(810)
Tax effect of expenses that are not deductible	2,720	1,491
Tax effect of super-deduction of research and development costs	(6,331)	(3,488)
Tax effect of temporary differences not recognized	(2)	–
Tax effect of utilisation of tax losses not previously recognised	(2,611)	(4,510)
Tax effect of tax losses not recognised	11,998	21,709
PRC dividend withholding tax previously recognised and reversed	(871)	–
Effect of different tax rates of subsidiaries	(1,946)	3,374
Income tax credit	(871)	–

Notes to the Consolidated Financial Statements

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15. Loss Per Share Attributable to Owners of the Company

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 952,739,000 (2020: 952,739,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2021 and 2020 in respect of a dilution as the impact of the share option schemes had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic loss per share are based on:

	2021 HK\$'000	2020 HK\$'000
Loss		
Loss attributable to owners of the Company used in the basic loss per share calculation	(3,853)	(64,021)
	Number of shares	
	2021 '000	2020 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	952,739	952,739
Basic	HK(0.4) cent	HK(6.7) cents
Diluted	HK(0.4) cent	HK(6.7) cents

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16. Property, Plant and Equipment

	Buildings HK\$'000	Leasehold improvement HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2020	4,562	24,470	165,812	3,958	20,620	–	219,422
Additions	–	–	4,761	–	317	–	5,078
Disposals	–	–	(21,882)	(1,038)	(253)	–	(23,173)
Exchange differences	293	1,397	8,182	128	291	–	10,291
At 31 December 2020 and 1 January 2021	4,855	25,867	156,873	3,048	20,975	–	211,618
Additions	–	–	6,966	–	347	11,576	18,889
Disposals	–	(1,329)	(21,264)	(557)	(1,678)	–	(24,828)
Transfer	–	1,521	6,368	1,467	687	(10,043)	–
Exchange differences	143	710	3,666	76	135	22	4,752
At 31 December 2021	4,998	26,769	152,609	4,034	20,466	1,555	210,431
Accumulated depreciation and impairment losses							
At 1 January 2020	1,160	11,084	128,984	2,788	17,615	–	161,631
Charge for the year	230	3,706	15,020	420	848	–	20,224
Disposals	–	–	(17,834)	(1,006)	(187)	–	(19,027)
Exchange differences	87	845	6,607	116	168	–	7,823
At 31 December 2020 and 1 January 2021	1,477	15,635	132,777	2,318	18,444	–	170,651
Charge for the year	246	3,587	11,884	395	1,898	–	18,010
Disposals	–	(1,329)	(18,984)	(557)	(1,662)	–	(22,532)
Exchange differences	47	695	2,899	54	107	–	3,802
At 31 December 2021	1,770	18,588	128,576	2,210	18,787	–	169,931
Carrying amount							
At 31 December 2021	3,228	8,181	24,033	1,824	1,679	1,555	40,500
At 31 December 2020	3,378	10,232	24,096	730	2,531	–	40,967

Certificates of ownership in respect of the buildings of the Group located in Mainland China with a net carrying value of HK\$3,228,000 as at 31 December 2021 (31 December 2020: HK\$3,378,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates of the buildings.

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17. Intangible Assets

	Trademarks HK\$'000	Software HK\$'000	Total HK\$'000
Cost			
At 1 January 2020	24,582	14,612	39,194
Additions	29	116	145
Disposals	(44)	–	(44)
Exchange differences	1	2,671	2,672
At 31 December 2020 and 1 January 2021	24,568	17,399	41,967
Additions	265	1,322	1,587
Disposals	(24,379)	–	(24,379)
Exchange differences	66	1,456	1,522
At 31 December 2021	520	20,177	20,697
Accumulated amortisation and impairment losses			
At 1 January 2020	24,344	4,940	29,284
Amortisation for the year	9	1,731	1,740
Exchange differences	1	2,188	2,189
At 31 December 2020 and 1 January 2021	24,354	8,859	33,213
Amortisation for the year	314	1,528	1,842
Disposals	(24,379)	–	(24,379)
Exchange differences	59	2,924	2,983
At 31 December 2021	348	13,311	13,659
Carrying amount			
At 31 December 2021	172	6,866	7,038
At 31 December 2020	214	8,540	8,754

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18. Right-Of-Use Assets

The Group has lease contracts for various items of buildings and other equipment used in its operations. Buildings generally have lease terms between 2 and 9 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings HK\$'000
As at 1 January 2020	44,949
Additions	3,042
Depreciation charge for the year	(14,626)
Disposals	(836)
Exchange differences	1,551
As at 31 December 2020 and 1 January 2021	34,080
Additions	7,847
Depreciation charge for the year	(14,406)
Exchange differences	757
As at 31 December 2021	28,278

(a) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 HK\$'000	2020 HK\$'000
Interest on lease liabilities (included in finance costs)	1,574	1,914
Depreciation charge of right-of-use assets	14,406	14,626
Expense relating to short-term leases and other leases with remaining lease terms ended on or before the end of reporting period (included in administrative expenses)	1,612	19
Expense relating to leases of low-value assets (included in administrative expenses)	36	9
Covid-19-related rent concessions from lessors	–	(239)
Total amount recognised in profit or loss	17,628	16,329

(b) The total cash outflow for leases is disclosed in note 37(c) to the consolidated financial statements.

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19. Investment Property

	2021 HK\$'000	2020 HK\$'000
Cost		
At 1 January	5,553	5,553
Transfer to non-current asset classified as held for sale (note 24)	(5,553)	–
As 31 December	–	5,553
Accumulated depreciation		
At 1 January	1,361	1,203
Charge for the year	160	158
Transfer to non-current asset classified as held for sale (note 24)	(1,521)	–
At 31 December	–	1,361
Net carrying amount	–	4,192

At 31 December 2020, the carrying amount of investment property pledged as security for the Group's bank borrowings.

20. Investment in an Associate

	2021 HK\$'000	2020 HK\$'000
Unlisted investment: Share of net assets	2,395	–

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20. Investment in an Associate *(Continued)*

Details of the Group's associate at 31 December 2021 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing
Pavana Technology Joint Stock Company	Vietnam	3,000,000 ordinary shares of Vietnamese Dong ("VND") 10,000 each	25%

The following table shows information on the associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the Vietnamese Accounting Standards financial statements of the associate.

	2021
Principal place of business/country of incorporation	Vietnam
Principal activities	Manufacture and sales of camera products
% of ownership interests/voting rights held by the Group	25%
	HK\$'000
At 31 December:	
Current assets	10,793
Current liabilities	(1,214)
Net assets	9,579
Group's share of net assets	2,395
Goodwill	–
Group's share of carrying amount of interests	2,395
Year ended 31 December:	
Revenue	568
Loss for the year and total comprehensive income	(649)

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21. Equity Investment Designated at FVTOCI

	2021 HK\$'000	2020 HK\$'000
Non-current assets		
Unlisted equity investment in Kandao, at fair value	27,072	24,387

The above investment was irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature.

Equity investment designated at FVTOCI is denominated in RMB.

22. Inventories

	2021 HK\$'000	2020 HK\$'000
Raw materials	98,705	62,942
Work in progress	54,456	46,555
Finished goods	47,523	38,427
	200,684	147,924

23. Trade and Factoring Receivables

	2021 HK\$'000	2020 HK\$'000
Trade receivables	30,318	68,496
Impairment losses	(2,992)	(3,799)
	27,326	64,697
Factoring receivables	17,242	–
Impairment losses	(345)	–
	16,897	–
	44,223	64,697

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23. Trade and Factoring Receivables *(Continued)*

The Group requires most of its customers to make payments in advance, however, the Group grants certain credit periods range from 30 to 90 days to those customers with good payment history. The credit period for specific customers is considered on a case-by-case basis and is set out in the sales contracts, as appropriate.

The Group has entered into receivable purchase arrangements with a bank for the factoring of trade receivables on a full recourse basis with a designated customer. As at 31 December 2021, trade receivables factored to the bank aggregated to HK\$17,242,000 (2020: Nil). As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the amount of the receivables and has recognised the cash received on the transfer as secured factoring loans of HK\$9,511,000 (2020: Nil) (note 28), with a net position of HK\$7,731,000 (2020: Nil). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The Group does not hold any collateral or other credit enhancements over its trade and factoring receivable balances. Trade and factoring receivables are non-interest-bearing and the carrying amounts of the trade and factoring receivables approximate to their fair values.

An ageing analysis of the trade and factoring receivables as at the end of the reporting period, based on the invoice date and net of impairment losses, is as follows:

	2021 HK\$'000	2020 HK\$'000
Within 1 month	17,905	38,188
1 to 2 months	16,316	19,001
2 to 3 months	8,802	4,047
Over 3 months	1,200	3,461
	44,223	64,697

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

	2021 HK\$'000	2020 HK\$'000
US\$	43,222	57,868
RMB	227	6,678
British Pounds ("GBP")	753	144
Other currencies	21	7
	44,223	64,697

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23. Trade and Factoring Receivables *(Continued)*

The movements in the impairment losses of trade and factoring receivables are as follows:

	2021 HK\$'000	2020 HK\$'000
At 1 January	3,799	3,229
(Reversal of impairment losses)/impairment losses (note 10)	(475)	566
Exchange differences	13	4
At 31 December	3,337	3,799

An impairment analysis is performed at each reporting date using a provision matrix or individually assessed to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns by customer type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and factoring receivables are written off if past due for more than one year and are not subject to enforcement activity.

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23. Trade and Factoring Receivables *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade and factoring receivables:

As at 31 December 2021

Category	Carrying amount		Impairment losses		Net book value HK\$'000
	Amount HK\$'000	Proportion %	Amount HK\$'000	Proportion %	
Trade and factoring receivables for which impairment losses has been assessed individually	2,646	5.56	2,646	100	–
Trade and factoring receivables for which impairment losses has been assessed by using a provision matrix	44,914	94.44	691	1.54	44,223
	47,560	100	3,337	7.02	44,223

As at 31 December 2020

Category	Carrying amount		Impairment losses		Net book value HK\$'000
	Amount HK\$'000	Proportion %	Amount HK\$'000	Proportion %	
Trade and factoring receivables for which impairment losses has been assessed individually	2,635	3.85	2,635	100	–
Trade and factoring receivables for which impairment losses has been assessed by using a provision matrix	65,861	96.15	1,164	1.77	64,697
	68,496	100	3,799	5.55	64,697

Notes to the Consolidated Financial Statements

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23. Trade and Factoring Receivables *(Continued)*

Trade and factoring receivables for which impairment losses has been assessed by using a provision matrix are as follows:

As at 31 December 2021

	Past due					Total
	Current	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	
Expected credit loss rate (%)	0.75	3.12	9.23	30.36	100	–
Gross carrying amount (HK\$'000)	34,475	9,090	1,288	44	17	44,914
Expected credit losses (HK\$'000)	258	284	119	13	17	691

As at 31 December 2020

	Past due					Total
	Current	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	
Expected credit loss rate (%)	0.50	2.54	9.51	28.92	100	–
Gross carrying amount (HK\$'000)	54,764	7,816	1,492	1,744	45	65,861
Expected credit losses (HK\$'000)	274	199	142	504	45	1,164

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24. Non-Current Asset Classified as Held for Sale

During the year ended 31 December 2021, the management of the Group has a detailed plan to sell the property premise located in Hong Kong (the “property”) classified as investment property with carrying amount of HK\$4,032,000.

On 5 January 2022, the Group and the purchaser entered into the sale and purchase agreement, pursuant to which, the Group has agreed to sell, and the purchaser has agreed to purchase, the property at a cash consideration of HK\$15,000,000. At the date of this report, the disposal of the property transaction has been completed.

As at 31 December 2021, the Group had classified the property under investment property as a non-current asset classified as held for sale which was separately presented in the consolidated statement of financial position.

25. Financial Asset at FVTPL

	2021 HK\$'000	2020 HK\$'000
Investment in life insurance policy	5,022	5,022

In March 2010, the Group’s subsidiary, Sky Light Digital Limited entered into a life insurance policy with an insurance company to insure Mr. Tang Wing Fong, Terry, a director of the Company. Under the policy, the beneficiary and the policy holder is Sky Light Digital Limited and the total insured sum is HK\$12,422,000. The Group was required to pay a one-off premium payment of HK\$4,109,000 at the inception of the policy. A guaranteed interest rate of 5.2% per annum applied for the first year, followed by the discretionary portion with a minimum guaranteed interest rate of 3.0% per annum for the following years until termination. The Group can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal (“Cash Surrender Value”), which is determined by the premium payment plus accumulated guaranteed interest earned minus the accumulated insurance charges, policy expense charges and a specified amount of surrender charge if the withdrawal is made between 1st to 15th policy year.

The carrying amount represented the Cash Surrender Value of the policy and approximates its fair value at the end of the reporting periods. As at 31 December 2021 and 2020, the life insurance was pledged to a bank to secure banking facilities of the Group as set out in note 28. Details of fair value measurement are set out in note 7 to the consolidated financial statements.

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26. Prepayments and Other Receivables

	2021 HK\$'000	2020 HK\$'000
Non-current assets		
Non-current prepayments	–	3,016
Current assets		
Prepayments	3,813	3,420
Value added tax receivables	10,351	9,278
Deposits and other receivables	18,894	10,868
	33,058	23,566

As at 31 December 2021, the financial assets included in the above balances relate to receivables for which there was no past due amounts, the Group estimated the expected credit loss rate to be minimal.

27. Cash and Cash Equivalents and Restricted and Pledged Bank Deposits

	2021 HK\$'000	2020 HK\$'000
Cash and bank balances	101,941	101,984
Restricted and pledged bank deposits	(5,753)	(4,498)
Cash and cash equivalents	96,188	97,486
Cash and cash equivalents denominated in		
— RMB	23,761	19,872
— US\$	64,254	69,445
— HK\$	5,413	6,132
— Other currencies	2,760	2,037
Cash and cash equivalents	96,188	97,486

Included in the restricted and pledged bank deposits, an amount of HK\$2,730,000 (2020: HK\$2,714,000) was pledged to a bank to secure banking facilities granted to the Group as set out in note 28 to the consolidated financial statements.

As at 31 December 2021, the cash and cash equivalents of the Group denominated in RMB amounted to HK\$23,761,000 (2020: HK\$19,872,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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28. Interest-Bearing Bank Borrowings

Current	Note	2021		2020	
		Effective interest rate (%)	HK\$'000	Effective interest rate (%)	HK\$'000
Bank loans — unsecured		–	–	1.0	714
Bank loans — secured	(ii)	1.3~1.4	22,369	1.4~1.5	11,289
Factoring loans — secured	(iii)	1.7	9,511	–	–
			31,880		12,003

	2021 HK\$'000	2020 HK\$'000
The borrowings are repayable as follows:		
Within one year	31,880	11,289
Within two years	–	714
	31,880	12,003

Note:

- (i) The Group's banking facilities amounting to HK\$46,394,000 (2020: HK\$23,000,000), of which HK\$31,880,000 (2020: HK\$11,289,000) had been utilised as at the end of the reporting period.
- (ii) The borrowings as at 31 December 2021 were secured by the pledge of the life insurance policy and pledged bank deposits as set out in note 25 and 27 to the consolidated financial statements, personal guarantee executed by a controlling shareholder of the Company, corporate guarantee executed by a company controlled by the controlling shareholder of the Company and two subsidiaries of the Group respectively.
- (iii) Factoring loan of HK\$9,511,000 (2020: Nil) was secured by the pledge of the Group's trade and factoring receivables of HK\$11,889,000 (2020: Nil).
- (iv) All borrowings are denominated in the US\$.

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29. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 HK\$'000	2020 HK\$'000
Within 1 month	47,774	48,403
1 to 2 months	42,843	34,184
2 to 3 months	12,883	14,867
Over 3 months	15,096	33,766
	118,596	131,220

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

	2021 HK\$'000	2020 HK\$'000
RMB	71,551	86,171
US\$	44,924	44,024
VND	1,917	1,003
Other currencies	204	22
	118,596	131,220

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30. Other Payables and Accruals

	Note	2021 HK\$'000	2020 HK\$'000
Contract liabilities	(a)	41,252	33,915
Other payables		10,420	9,601
Salary and welfare payables		14,181	12,180
Accruals		–	130
Amount due to a director	(b)	20,112	–
Withholding tax payables		6,287	6,275
		92,252	62,101

Note:

- (a) Contract liabilities represented advance payments from customers mainly involve the sale of industrial products.

There were no significant changes in the contract liabilities balances during the reporting period.

Movements in contract liabilities:

	2021 HK\$'000	2020 HK\$'000
Balance at 1 January	33,915	29,647
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(33,702)	(21,191)
Increase in contract liabilities as a result of advance payments from customers	41,039	25,459
Balance at 31 December	41,252	33,915

- (b) Amount due to a director is unsecured and non-interest-bearing. Included in the amount due to a director was an amount of HK\$12,773,000 which is payable on demand and the remaining of HK\$7,339,000 will be payable on 10 November 2022.

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31. Lease Liabilities

	2021 HK\$'000		2020 HK\$'000	
Leased properties	30,543		36,564	
	Minimum lease payments		Present value of minimum lease payments	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Within one year	15,139	13,701	14,028	12,300
In the second year	12,828	10,791	12,355	9,880
In the third to fifth year, inclusive	4,261	14,936	4,160	14,384
Less: Future finance charges	32,228 (1,685)	39,428 (2,864)	30,543 N/A	36,564 N/A
Present value of lease obligations	30,543	36,564	30,543	36,564
Less: Amount due for settlement within 12 months (shown under current liabilities)			14,028	12,300
Amount due for settlement after 12 months			16,515	24,264

The incremental borrowing rates applied to lease liabilities range from 3.7% to 7.3% (2020: 3.7% to 7.3%).

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31. Lease Liabilities *(Continued)*

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

	2021 HK\$'000	2020 HK\$'000
RMB	23,874	27,801
US\$	5,271	8,001
HK\$	1,326	546
Others	72	216
	30,543	36,564

32. Deferred Tax Liabilities

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities

	Withholding taxes HK\$'000
At 1 January 2020, 31 December 2020 and 1 January 2021	871
Credit to profit or loss for the year (note 14)	(871)
At 31 December 2021	–

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% for the year. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

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32. Deferred Tax Liabilities *(Continued)*

Deferred tax liabilities (Continued)

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

As at 31 December 2021

	Hong Kong HK\$'000	Mainland China HK\$'000	United States of America HK\$'000	Vietnam HK\$'000	United Kingdom HK\$'000	Total HK\$'000
31 December 2022	–	5,110	–	–	–	5,110
31 December 2023	–	6,021	–	–	–	6,021
31 December 2024	–	15,351	–	6,030	–	21,381
31 December 2025	–	19,146	–	14,807	–	33,953
31 December 2026	–	12,765	–	2,010	–	14,775
31 December 2027	–	35,464	–	–	–	35,464
31 December 2028	–	27,111	–	–	–	27,111
31 December 2029	–	29,578	–	–	–	29,578
31 December 2030	–	69,976	–	–	–	69,976
31 December 2031	–	41,804	–	–	–	41,804
31 December 2036	–	–	15,230	–	–	15,230
31 December 2037	–	–	13,259	–	–	13,259
31 December 2038	–	–	12,964	–	–	12,964
31 December 2039	–	–	22,376	–	–	22,376
31 December 2040	–	–	12,975	–	–	12,975
31 December 2041	–	–	12,166	–	–	12,166
	–	262,326	88,970	22,847	–	374,143
No expiry date	383,115	–	–	–	5,439	388,554
	383,115	262,326	88,970	22,847	5,439	762,697

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32. Deferred Tax Liabilities *(Continued)*

Deferred tax liabilities (Continued)

The Group's tax losses will expire in the following years *(Continued)*

As at 31 December 2020

	Hong Kong HK\$'000	Mainland China HK\$'000	United States of America HK\$'000	Vietnam HK\$'000	United Kingdom HK\$'000	Total HK\$'000
31 December 2022	–	5,039	–	–	–	5,039
31 December 2023	–	5,938	–	–	–	5,938
31 December 2024	–	15,139	–	5,928	–	21,067
31 December 2025	–	18,881	–	14,558	–	33,439
31 December 2026	–	6,795	–	–	–	6,795
31 December 2027	–	34,973	–	–	–	34,973
31 December 2028	–	26,736	–	–	–	26,736
31 December 2029	–	29,169	–	–	–	29,169
31 December 2030	–	69,008	–	–	–	69,008
31 December 2036	–	–	15,190	–	–	15,190
31 December 2037	–	–	13,224	–	–	13,224
31 December 2038	–	–	12,930	–	–	12,930
31 December 2039	–	–	22,317	–	–	22,317
31 December 2040	–	–	12,941	–	–	12,941
	–	211,678	76,602	20,486	–	308,766
No expiry date	398,941	–	–	–	3,876	402,817
	398,941	211,678	76,602	20,486	3,876	711,583

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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33. Share Capital

	2021 HK\$'000	2020 HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	20,000	20,000
Issued and fully paid 952,739,455 (2020: 952,739,455) ordinary shares of HK\$0.01 each	9,528	9,528

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

The Group monitors capital using a gearing ratio. The gearing ratio is defined as total of interest-bearing bank borrowings and lease liabilities divided by total equity. The gearing ratios as at the end of the reporting periods were as follows:

	2021 HK\$'000	2020 HK\$'000
Interest-bearing bank borrowings (note 28)	31,880	12,003
Lease liabilities (note 31)	30,543	36,564
Total equity	62,423 220,972	48,567 215,830
Gearing ratio	28.2%	22.5%

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31 December 2021

33. Share Capital *(Continued)*

The increase in the gearing ratio during 2021 resulted primarily from increase of interest-bearing bank borrowings.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowings for the years ended 31 December 2021 and 2020.

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

34. Share Option Scheme

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include employees, advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the board of directors of the Company, in its sole discretion, consider have contributed or may contribute to the Group.

Notes to the Consolidated Financial Statements

31 December 2021

34. Share Option Scheme (Continued)

The following share options were outstanding during the year:

Date of grant	Number of share options				At 31 December 2021	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2021	Granted during the year	Exercised during the year	Lapsed during the year			
(i) 15/09/2016	7,629,000	–	–	(279,000)	7,350,000	15/09/2017–14/09/2024	HK\$1.70
(ii) 01/12/2016	4,000,000	–	–	–	4,000,000	01/12/2017–30/01/2025	HK\$1.986
(iii) 18/05/2017	7,050,000	–	–	(417,000)	6,633,000	18/05/2018–17/05/2025	HK\$2.206
(iv) 26/04/2018	7,398,000	–	–	(594,000)	6,804,000	26/04/2019–26/04/2026	HK\$0.94
(v) 16/05/2019	10,929,000	–	–	(4,189,000)	6,740,000	15/05/2020–15/05/2023	HK\$0.42
(vi) 16/04/2021	–	3,000,000	–	–	3,000,000	16/04/2022–15/04/2025	HK\$0.20
	37,006,000	3,000,000	–	(5,479,000)	34,527,000		

Date of grant	Number of share options				At 31 December 2020	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year			
(i) 15/09/2016	8,325,000	–	–	(696,000)	7,629,000	15/09/2017–14/09/2024	HK\$1.70
(ii) 01/12/2016	4,000,000	–	–	–	4,000,000	01/12/2017–30/01/2025	HK\$1.986
(iii) 18/05/2017	8,643,000	–	–	(1,593,000)	7,050,000	18/05/2018–17/05/2025	HK\$2.206
(iv) 26/04/2018	9,123,000	–	–	(1,725,000)	7,398,000	26/04/2019–26/04/2026	HK\$0.94
(v) 16/05/2019	12,696,000	–	–	(1,767,000)	10,929,000	15/05/2020–15/05/2023	HK\$0.42
	42,787,000	–	–	(5,781,000)	37,006,000		

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31 December 2021

34. Share Option Scheme *(Continued)*

Note:

- (i) One-third of these share options should become vested on the 1st anniversary date of 15 September 2016; a further one-third shall become vested on the 2nd anniversary date of 15 September 2016; and the remaining one-third should become vested on the 3rd anniversary date of 15 September 2016.

The fair value of the share options granted in September 2016 was HK\$8,111,000 (HK\$0.62672 each), of which no share option expense was recognised during the year ended 31 December 2021 (2020: Nil).

- (ii) One-third of these share options should become vested on the 1st anniversary date of 1 December 2016; a further one-third should become vested on the 2nd anniversary date of 1 December 2016; and the remaining one-third should become vested on the 3rd anniversary date of 1 December 2016.

The fair value of the share options granted in December 2016 was HK\$13,990,000 (HK\$0.703 each), of which no share option expense was recognised during the year ended 31 December 2021 (2020: Nil).

- (iii) One-third of these share options should become vested on the 1st anniversary date of 18 May 2017; a further one-third should become vested on the 2nd anniversary date of 18 May 2017; and the remaining one-third should become vested on the 3rd anniversary date of 18 May 2017.

The fair value of the share options granted on 18 May 2017 was HK\$10,416,000 (HK\$0.6944 each), of which no share option expense was recognised during the year ended 31 December 2021 (2020: HK\$37,000).

- (iv) One-third of these share options should become vested on the 1st anniversary date of 26 April 2018; a further one-third should become vested on the 2nd anniversary date of 26 April 2018; and the remaining one-third should become vested on the 3rd anniversary date of 26 April 2018.

The fair value of the share options granted on 26 April 2018 was HK\$4,245,000 (HK\$0.339 each), of which the Group recognised a share option expense of HK\$85,000 (2019: HK\$217,000) during the year ended 31 December 2021.

- (v) One-third of these share options should become vested on the 1st anniversary date of 16 May 2019; a further one-third should become vested on the 2nd anniversary date of 16 May 2019; and the remaining one-third should become vested on the 3rd anniversary date of 16 May 2019.

The fair value of the share options granted on 16 May 2019 was HK\$1,333,000 (HK\$0.102 each), of which the Group recognised a share option expense of HK\$184,000 (2020: HK\$258,000) during the year ended 31 December 2021.

- (vi) One-third of these share options should become vested on the 1st anniversary date of 16 April 2021; a further one-third should become vested on the 2nd anniversary date of 16 April 2021; and the remaining one-third should become vested on the 3rd anniversary date of 16 April 2021.

The fair value of the share options granted on 16 April 2021 was HK\$267,000 (HK\$0.089 each), of which the Group recognised a share option expense of HK\$108,000 (2020: Nil) during the year ended 31 December 2021.

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34. Share Option Scheme *(Continued)*

The following assumptions were used to derive the fair value, using the binomial model:

At grant date	16 April 2021
(i) Expected volatility	66.12% per year
(ii) Expected life of options	2.0–4.0 years
(iii) Average risk-free interest rate	1.09%–2.39% per year
(iv) Expected dividend yield	0% per year

As at 31 December 2021, the Company had 34,527,000 (2020: 37,006,000) share options outstanding. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 34,527,000 (2020: 37,006,000) additional ordinary shares of the Company and additional share capital of HK\$345,000 (2020: HK\$370,000) and share premium of HK\$58,351,000 (2020: HK\$62,540,000) (before issue expenses).

35. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity on pages 61 to 62 of the consolidated financial statements.

(b) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

The Group's capital reserve represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

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35. Reserves *(Continued)*

(b) Nature and purpose of reserves (Continued)

(iii) Share-based payments reserve

The share-based payments reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group.

(iv) Statutory reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

36. Commitments

The Group had the following capital commitments at the end of the reporting period:

	2021 HK\$'000	2020 HK\$'000
Contracted, but not provided for:		
Plant and machinery	941	204

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37. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$7,847,000 and HK\$7,847,000 (2020: HK\$3,042,000 and HK\$3,042,000), respectively, in respect of lease arrangements for land and buildings.

(b) Reconciliation of liabilities arising from financing activities

2021

	Bank borrowings HK\$'000 (Note 28)	Lease liabilities HK\$'000 (Note 31)	Total HK\$'000
At 1 January 2021	12,003	36,564	48,567
Financing net cash flows	19,581	(16,069)	3,512
Non-cash changes:			
Additions of right-of-use assets	–	7,847	7,847
Interest expense	296	1,574	1,870
Exchange difference	–	627	627
At 31 December 2021	31,880	30,543	62,423

2020

	Bank borrowings HK\$'000 (Note 28)	Lease liabilities HK\$'000 (Note 31)	Total HK\$'000
At 1 January 2020	16,678	46,638	63,316
Financing net cash flows	(4,933)	(15,555)	(20,488)
Non-cash changes:			
Additions of right-of-use assets	–	3,042	3,042
Interest expense	258	1,914	2,172
Covid-19-related rent concessions from lessors	–	(239)	(239)
Disposals of right-of-use assets	–	(883)	(883)
Exchange difference	–	1,647	1,647
At 31 December 2020	12,003	36,564	48,567

Notes to the Consolidated Financial Statements

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37. Notes to the Consolidated Statement of Cash Flows *(Continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2021 HK\$'000	2020 HK\$'000
Within operating activities	3,222	1,942
Within financing activities	14,495	13,641
	17,717	15,583

These amounts relate to the following:

	2021 HK\$'000	2020 HK\$'000
Lease rental paid	1,648	28
Payments for principal portion of leases	14,495	13,641
Payment for interest of leases	1,574	1,914
	17,717	15,583

38. Investments in Subsidiaries

	2021 HK\$'000	2020 HK\$'000
Unlisted investments, at cost	22,000	22,000
Amounts due from subsidiaries	201,104	414,247

As at 31 December 2021 and 2020, the amounts due from subsidiaries are unsecured, interest free and repayment on demand.

As at 31 December 2021, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to HK\$23,755,000 (2020: HK\$19,867,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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38. Investments in Subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered Share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sky Light Electronic Limited ("SLE")	Hong Kong 22 August 2006	HK\$22,000,000	100%	–	Investment holding
Sky Light Electronic (Shenzhen) Limited ("Sky Light Shenzhen") ^{#*} 天彩電子(深圳)有限公司	People's Republic of China (the "PRC")/ Mainland China 23 January 2008	HK\$68,000,000	–	100%	Manufacture and sale of camera products and related accessories
Sky Light Imaging Limited ("Sky Light Imaging")	Hong Kong 22 August 2006	HK\$5,000,000	–	100%	Distribution of camera products and related accessories
Sky Light Technology (Heyuan) Limited ("Sky Light Technology (HY)") ^{***} 河源市新天彩科技有限公司	PRC/Mainland China 2 March 2010	RMB20,000,000	–	100%	Manufacture and sale of camera products and related accessories
Sky Light Electronic Joint Stock Company ("SLJSC") ^{***}	Vietnam 14 February 2019	USD3,994,888	–	73.70%	Manufacture and sale of camera products and related accessories

[#] The English names of the Company's subsidiaries registered in the PRC represent the translated names of these companies as no English names have been registered.

^{*} Sky Light Shenzhen is registered as a wholly-foreign-owned enterprise under PRC law.

^{**} Sky Light Technology (HY) is registered as a limited liability company under PRC law.

^{***} Sky Light Electronic Joint Stock Company is registered as a non-wholly-owned subsidiary under Vietnam law.

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39. Related Party Transactions and Balances

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Note	2021 HK\$'000	2020 HK\$'000
Rental expenses:			
XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")	(i)	–	1,292

(i) The rental expenses were paid to XinYongYi, which was controlled by a shareholder of a subsidiary of the Group, for a lease of plant and office premises located in Heyuan and were charged in the form of monthly rentals of HK\$215,000 from 1 January 2020 to 30 June 2020. The rental was determined based on mutual agreement between the parties.

(b) Compensation of key management personnel of the Group

	2021 HK\$'000	2020 HK\$'000
Short term employee benefits	3,059	2,902
Equity-settled share option expense	31	138
Post-employment benefits	135	101
Total compensation paid to key management personnel	3,225	3,141

Further details of directors' and the chief executive's remunerations are included in note 12 to the consolidated financial statements.

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40. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Amounts due from subsidiaries	38	201,104	414,247
Investments in subsidiaries	38	22,000	22,000
Total non-current assets		223,104	436,247
CURRENT ASSETS			
Prepayments		58	58
Cash and cash equivalents		328	404
Total current assets		386	462
CURRENT LIABILITIES			
Amounts due to subsidiaries		100	–
Other payables		–	125
Total current liabilities		100	125
NET CURRENT ASSETS		286	337
Net assets		223,390	436,584
EQUITY			
Share capital	33	9,528	9,528
Reserves		213,862	427,056
Total equity		223,390	436,584

Approved by the Board of Directors on 29 March 2022 and are signed on its behalf by:

Mr. Tang Wing Fong Terry
Director

Mr. Lu Yongbin
Director

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40. Statement of Financial Position of the Company *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2020	752,853	23,715	81,350	(430,293)	427,625
Total comprehensive income for the year	–	–	–	(1,081)	(1,081)
Equity-settled share option arrangements	–	512	–	–	512
At 31 December 2020 and 1 January 2021	752,853	24,227	81,350	(431,374)	427,056
Total comprehensive income for the year	–	–	–	(213,571)	(213,571)
Lapse of share option	–	(9,452)	–	9,452	–
Equity-settled share option arrangements	–	377	–	–	377
At 31 December 2021	752,853	15,152	81,350	(635,493)	213,862

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 4(r) to the consolidated financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

42. Event After the Reporting Period

As disclosed in the Company's announcements dated 5 January 2022 and 6 January 2022 and note 24, the Vendor, an indirect wholly-owned subsidiary of the Company and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Vendor has agreed to sell, and the Purchase has agreed to purchase, the Property at a cash consideration of HK\$15,000,000.

At the date of this report, the disposal of the property transaction has been completed.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows.

	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	715,093	437,111	549,123	989,708	735,780
Gross profit	121,758	61,071	62,483	172,957	161,320
Gross profit margin	17.0%	14.0%	11.4%	17.5%	21.9%
Loss before tax	(4,283)	(71,063)	(84,476)	(250,612)	(470,034)
Loss for the year	(3,412)	(71,063)	(84,476)	(253,728)	(485,300)
Net profit margin	(0.5%)	(16.3%)	(15.4%)	(25.6%)	(66.0%)
Loss attributable to owners of the Company	(3,853)	(64,021)	(82,310)	(253,728)	(485,300)
Cash and cash equivalents	96,188	97,486	106,899	95,132	203,129
Bank and other borrowings	31,880	12,003	16,678	29,717	89,265
Total assets	494,243	458,589	499,711	611,293	985,428
Total liabilities	273,271	242,759	226,362	301,226	415,164
Equity attributable to owners of the Company	221,945	217,307	267,364	310,067	570,264
Non-controlling interests	(973)	(1,477)	5,985	–	–
Total equity	220,972	215,830	273,349	310,067	570,264