



# Takbo Group Holdings Limited

## 德寶集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock code : 8436

## Annual Report 2017



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## Corporate Information

### Executive Directors

Mr. Or Naam (*Chief Executive Officer*)  
(appointed on 8 February 2017)

Ms. Chan Hoi Yan Polly  
(appointed on 27 February 2017)

Mr. Or Huen  
(appointed on 27 February 2017)

### Independent Non-Executive Directors

Mr. Tan Chong Huat (*Chairman*)  
(appointed on 29 September 2017)

Mr. Sung Chi Keung  
(appointed on 29 September 2017)

Mr. Wong, Irving Holmes Weng Hoong  
(appointed on 29 September 2017)

### Audit Committee

Mr. Sung Chi Keung (*Chairman*)  
Mr. Tan Chong Huat  
Mr. Wong, Irving Holmes Weng Hoong

### Remuneration Committee

Mr. Tan Chong Huat (*Chairman*)  
Mr. Sung Chi Keung  
Mr. Or Naam

### Nomination Committee

Mr. Wong, Irving Holmes Weng Hoong (*Chairman*)  
Mr. Sung Chi Keung  
Mr. Or Huen

### Company Secretary

Mr. Ng Chit Sing

### Authorized Representatives

Mr. Or Naam  
Ms. Chan Hoi Yan Polly

### Compliance Officer

Ms. Chan Hoi Yan Polly

### Registered Office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### Principal Place of Business in Hong Kong

Room B, 35th Floor, EGL Tower  
83 Hung To Road, Kwun Tong  
Kowloon, Hong Kong

### Independent Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor, Prince's Building  
Central, Hong Kong

### Compliance Adviser

Lego Corporate Finance Limited  
Room 1601, 16/F, China Building  
29 Queen's Road Central  
Central, Hong Kong

## Corporate Information (Continued)

### **Principal Bankers**

Bank of China (Hong Kong) Limited  
Bank of China Tower  
1 Garden Road, Hong Kong

Nanyang Commercial Bank Limited  
151 Des Voeux Road Central  
Central  
Hong Kong

### **Principal Share Registrar and Transfer Office in the Cayman Islands**

Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **Hong Kong Branch Share Registrar and Transfer Office**

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **Stock Code**

8436

### **Company Website**

[www.takbogroup.com](http://www.takbogroup.com)

## CEO's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Takbo Group Holdings Limited (the "Company"), I am pleased to present our audited consolidated financial results of the Company and its subsidiaries (collectively, referred as to the "Group"), for the year ended 31 December 2017.

The Group has made a successful listing on GEM of the Stock Exchange on 27 October 2017. We were pleased to witness the Group marked this important milestone and the recognition gained throughout our business history. The listing did not only enhance our capital base but also enhance our corporate image and reputation. By leveraging its advantages of the listed platform, its capital and talents, the Group expects to further strengthen the position as a beauty products manufacturers and solutions provider of beauty bags, which would in turn leading to expansion of our business scale and increment of overall profits and returns to the shareholders.

The year 2017 has marked a promising year for many manufacturing players, as it was a year characterized by general recovery of global economy. The business environment of the Group has also recorded a healthily growing status. During the year ended 31 December 2017, with the continuing effort to enhance sales strategy and client management, the Group achieved a record high sales performance among the past three years.

For the year ended 31 December 2017, revenue of the Group amounted to approximately HK\$179.4 million, representing an increase of approximately 8.6% over the corresponding period of the previous year. The gross profit of the Group for the year ended 31 December 2017 amounted to approximately HK\$65.9 million, representing an increase of approximately 9.2% over the corresponding period of the previous year. Profit attributable to equity holders of the Company amounted to approximately HK\$5.5 million (including listing expenses of approximately HK\$15.7 million) as compared to a profit attributable to equity holders of the Company of approximately HK\$13.7 million (including listing expenses of approximately HK\$2.4 million) for the year ended 31 December 2016. Excluding the listing expenses, profit attributable to equity holders of the Company for the year ended 31 December 2017 would be approximately HK\$21.1 million, representing an increase of approximately 31.4% over that of the previous year.

With expansion of our factory in China, proactive participation in both local and global beauty exhibitions as well as strengthen business relationship with existing customers, I believe there would be another remarkable year in 2018.

On behalf of the Board, I would like to express my sincerest gratitude to all our management team members and staffs for their tremendous effort during the year and especially during the IPO process. We shall be grateful for your continuing support and trust in the future.

**Or Naam**

*Chief Executive Officer and Executive Director*

Hong Kong, 20 March 2018

# Management Discussion and Analysis

## Market Overview

With global economic growth in the year of 2017, the market was generally getting a promising business. Since most of the customers of the Group are from North America region, our growing business for the year was also attributable to the improving economic and business environment of the United States of America.

## Business Overview

The Group are principally engaged in (i) the design, development, manufacture and sale of beauty products; and (ii) the design, development and sale of beauty bags.

For the year ended 31 December 2017, the Group's sale of beauty bags business has achieved a major breakthrough, recording a considerable contribution to the Group's profit. In response to the favorable market environment, the Group continued leverage its reputation, sound track records as well as its competitive pricing strategy to tender contracts, which resulted in securing and awarding more sales contracts, and hence increase the overall revenue. By strengthening our sales strategy and client management, we recorded increases in our overall sales performance in this segment. In particular, there was strong growth in sales on beauty bags with 38.2% increase compared to that of year ended 31 December 2016, while our sales on beauty products maintained at stable level as last year.

Looking forward, the goal of the Group is to strengthen the position as a beauty products manufacturer and solutions provider of beauty bags to the extent that it can complement the Group's manufacture of beauty products, and leverage on our competitive advantages to expand our operation scale and increase overall profit.

With stronger reputation upon listing on GEM of the Stock Exchange, strengthen relationships with existing customers, participations in different local and global beauty exhibitions as well as expansion of our production facilities, the Group believe there would be another promising business record for the year ending 31 December 2018.

	For the year ended		
	31 December		
	2017	2016	Change
	HK\$'000	HK\$'000	%
Revenue	179,369	165,098	8.6
Gross profit	65,947	60,400	9.2
Gross profit margin	36.8%	36.6%	0.2
Net profit before listing expenses	21,123	16,077	31.4
Net profit after listing expenses	5,470	13,660	(60.0)
Earnings per share (in HK cents)	1.7	4.6	(63.0)

## Management Discussion and Analysis (Continued)

The following table sets out a breakdown of revenue of the Group and the percentage contribution to total revenue by product category for the year ended 31 December 2017 and 2016:

	For the year ended 31 December			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Beauty products	111,087	61.9	115,673	70.0
Beauty bags	68,282	38.1	49,425	30.0
<b>Total</b>	<b>179,369</b>	<b>100.0</b>	<b>165,098</b>	<b>100.0</b>

Revenue of the Group for the year ended 31 December 2017 amounted to approximately HK\$179.4 million, representing an increase of approximately 8.6% over the corresponding period of the previous year. The increase was mainly attributable to the higher sales demands for beauty bags from our existing customers. The gross profit of the Group for the year ended 31 December 2017 amounted to approximately HK\$65.9 million, representing an increase of approximately 9.2% over the corresponding period of the previous year. The gross profit margin of the Group kept at a stable level of approximately 37%.

Profit attributable to equity holders of the Company for the year ended 31 December 2017 amounted to approximately HK\$5.5 million (including one-time listing expenses of approximately HK\$15.7 million) as compared to a profit attributable to equity holders of the Company of approximately HK\$13.7 million (including one-time listing expenses of approximately HK\$2.4 million) for the year ended 31 December 2016. Excluding the one-off listing expenses of approximately HK\$15.7 million, profit attributable to equity holders of the Company for the year ended 31 December 2017 would amount to approximately HK\$21.1 million, representing an increase of approximately 31.4% over the corresponding period of the previous year. Such change was due to the promising sales performance and more effective cost management for the year.



## Management Discussion and Analysis (Continued)

### Comparison Between Business Objectives and Actual Business Progress

The following is a comparison between the Group's business plans as set out in the prospectus of the Company dated 13 October 2017 (the "Prospectus") and the Group's actual business progress for the Year:

Business Plan	Actual Business Progress
Upgrade production hardware, facilities and infrastructure	— The Group is in the progress on upgrading production hardware and infrastructure, which is expected to be completed by the late of 2018 or first quarter of 2019.
Expand the Hong Kong headquarters	<p>— The Group has entered into a lease agreement on 1 February 2018 for a premises located next to our headquarters.</p> <p>— The extended gross area would be used for our showroom for displaying our beauty products and beauty bags for sales purpose.</p>
Participate in local and global exhibitions	<p>— The Group participated in Cosmoprof Asia Hong Kong in November 2017.</p> <p>— The Group is now developing relationship with various potential customers from the exhibition.</p>

### Use of Listing Proceeds

The shares of the Company were listed on GEM of the Stock Exchange on 27 October 2017 (the "Listing Date") for which the Company issued 100,000,000 new shares at HK\$0.69 per share. The net listing proceeds received by the Company, after deducting underwriting fees and other related expenses, are approximately HK\$42.1 million. These proceeds are intended to be applied in the manner as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The future plan and scheduled use of proceeds as disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied with consideration of the actual development of business and market. As of 31 December 2017, the Group does not anticipate any change to the plan as to the use of listing proceeds. The majority of the unused net proceeds have been placed as interest bearing short-term demand deposits with licensed bank in Hong Kong.

## Management Discussion and Analysis (Continued)

As at 31 December 2017, the net listing proceeds has been applied and utilized as follows:

Use of net proceeds	Planned use of net proceeds (HK\$'000)	Approximate percentage of total net proceeds	Actual use of net proceeds (HK\$'000)	Unused net proceeds (HK\$'000)
Upgrade production hardware, and facilities and infrastructure	23,670	56.2%	4,604	19,066
Expand the Hong Kong headquarters	11,245	26.7%	14	11,231
Participate in local and global exhibitions	3,538	8.4%	267	3,271
General working capital	3,665	8.7%	522	3,143
<b>Total</b>	<b>42,118</b>	<b>100%</b>	<b>5,407</b>	<b>36,711</b>

### Liquidity and Financial Resources

The Group practiced prudent financial management and maintained a strong and sound financial position during the year ended 31 December 2017. As of 31 December 2017, the Group had cash and cash equivalents of approximately HK\$96.4 million (2016: approximately HK\$41.1 million). The increase in cash and cash equivalents were mainly attributable to the net proceeds from the Company's listing and cash generated from operation during the year.

The current ratio, calculated as the total current assets divided by total current liabilities, was approximately 9.0 times as at 31 December 2017 (2016: approximately 2.1 times). As at 31 December 2017, the Group did not have any outstanding borrowing and other indebtedness and no gearing ratio is presented.

### Administrative Expenses

The administrative expenses of the Group increased by approximately HK\$12.6 million or approximately 42.6% from approximately HK\$29.5 million for the year ended 31 December 2016 to approximately HK\$42.0 million for the year ended 31 December 2017. The increase was mainly attributable to the listing expenses as well as professional fees incurred for the listing of the Company.

## Management Discussion and Analysis (Continued)

### Selling Expenses

The selling expenses of the Group decreased by approximately HK\$2.8 million or approximately 18.4% from approximately HK\$15.1 million for the year ended 31 December 2016 to approximately HK\$12.3 million for the year ended 31 December 2017. The decrease was mainly attributable to the relatively less sales portion on non-recurring seasonal gift set products for the year ended 31 December 2017, the sampling charges, inspection and testing fees as well as marketing expenses of which were higher as opposed to recurring non-seasonal standalone products.

### Foreign Exchange Exposure

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk, primarily with respect to US\$ and Chinese Renminbi ("RMB") denominated transactions arising from the sales of beauty products and bags to customers and purchases from Suppliers. Since HK\$ is pegged to US\$, the Directors are of the opinion that the foreign exchange risk arising from US\$ of the Group is insignificant.

The Group has not entered into any agreement to hedge our exchange rate exposure relating to RMB and will continue to monitor its foreign exchange exposure. The Group will consider hedging significant foreign currency exposure should the need arises and no derivative financial instruments were held by the Group as at 31 December 2017 for speculative purposes.

### Contingent Liabilities and Capital Commitments

As at 31 December 2017, the Group did not have any material contingent liabilities (31 December 2016: Nil), the Group had capital commitment of approximately HK\$8.2 million in relation to expenditure on our factory expansion (31 December 2016: HK\$2.2 million) and operating leases of approximately HK\$27.8 million (31 December 2016: HK\$3.6 million) as at 31 December 2017.

### Pledge of Assets

The Group did not have pledged assets as at 31 December 2017 (31 December 2016: Nil).

### Capital Structure

The Company was incorporated in the Cayman Islands on 8 February 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 29 September 2017, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each by the creation of an additional 9,962,000,000 shares of HK\$0.01 each which rank pari passu in all respect with the existing shares.

The shares of the Company was listed on GEM of the Stock Exchange on 27 October 2017. On the same day, the Company's total number of ordinary shares, which are issued and fully paid, increased to 400,000,000 shares by issuing 399,999,997 new shares comprising 299,999,997 shares arising from the capitalisation issue and 100,000,000 shares from public offer at HK\$0.69 per share. Since then and up to 31 December 2017, there has been no change to the capital structure of the Company.

## Management Discussion and Analysis (Continued)

The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination of its cash and cash equivalents, cash flows generated from operations, bank facilities, and net proceeds from the share offer.

### **Future Plans for Material Investment and Capital Assets**

The Group did not have any other plans for material investment and capital assets as at 31 December 2017 save for the factory expansion plan, details of which are set out in the Company's prospectus dated 13 October 2017.

### **Significant Investments Held**

As at 31 December 2017, the Group did not have any significant investment in equity interest in any other company and did not own any properties (31 December 2016: Nil).

### **Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures**

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

### **Employees and Remuneration Policies**

As at 31 December 2017, the Group had 115 full-time employees in Hong Kong and the PRC (31 December 2016: 101 employees), including the Directors. Total staff costs (including Directors' emoluments) were approximately HK\$14.3 million for the year ended 31 December 2017 as compared to approximately HK\$17.5 million for the year ended 31 December 2016. Such decrease was mainly due to there was no discretionary bonuses (2016: HK\$2.7 million) provided to the directors for the year ended 31 December 2017.

Remuneration is determined with reference to duties, responsibilities, experience and skills. On top of basic salaries, depending on the business performance and the Group's development strategy, the Group provides discretionary bonuses to our senior management and key employees as incentive bonuses.

### **Significant Event After the Reporting Period**

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the year ended 31 December 2017.

# Biographical Details of the Directors of the Company and Senior Management

## Executive Directors

**Mr. Or Naam (柯枋先生)**, aged 49, is one of the founders of our Group and has been with our Group since 1995. He was appointed as a Director on 8 February 2017 and re-designated as an executive Director and chief executive officer of our Company on 27 February 2017. Mr. Or is also a member of remuneration committee of the Company.

Mr. Or Naam is currently a director of Takbo Limited ("Takbo") and a director of B&B (H.K.) Limited ("B&B"), where he oversees all aspects of the operations of our Group including sales and marketing, product development, merchandising, production, design, research, strategic planning, formulation of corporate policies and new business initiatives. His key focus is to further establish and manage our Group's overseas customers.

Mr. Or Naam is an entrepreneur. Over the past 23 years, he has gained start-up and operational experience in manufacturing and sales of packaging products (including beauty bags) and beauty products. In 1995, he joined our Group to design, develop and sell packaging products. Capitalising on our Group's experience in selling packaging products including seasonal and promotional beauty products gift packages, Mr. Or Naam further expanded our Group's business by providing "one-stop-service" to its customers, and our Group commenced the manufacturing of beauty products, from design, research, development and sourcing, to complement the packaging products for export to the U.S. and other markets.

Mr. Or Naam completed the AFS Year Programme, an intercultural, international, voluntary and non-governmental exchange programme which aims to provide local youth with complete and in-depth international cultural exchange opportunities, and to promote exchanges and learning regarding language, academic study, daily life and culture, to enhance their quality as global citizens ("AFS Programme"), at Daws Road High School (now known as Pasadena High School) in Australia for the 1988 to 1989 academic year. Mr. Or Naam was also the board member of AFS Intercultural Exchanges Ltd. from September 2003 to December 2015.

Mr. Or Naam is the spouse of Ms. Chan Hoi Yan Polly (an executive director), son of Ms. Chu, brother of Mr. Or Huen and brother-in-law of Ms. HM Chan.

**Ms. Chan Hoi Yan, Polly (陳凱欣女士)**, aged 46, has been with our Group since 1995. She was appointed as an executive Director on 27 February 2017. Ms. Chan is currently the general manager of Takbo and a director of B&B, where she oversees all day-to-day aspects of our operations in Hong Kong including sales and marketing, business development, merchandising, design and finance.

Ms. Chan is an entrepreneur. Over the past 23 years, she has gained experience in manufacturing and sales of packaging products (including beauty bags) and beauty products. She joined our Group in 1995 and rose through the ranks over the next 11 years to become general manager of Takbo in 2006.

Ms. Chan completed the AFS Programme at the King Edward VI School, Suffolk, in the United Kingdom, for the 1989 to 1990 academic year and obtained a Diploma in Design from the Hong Kong Polytechnic University in October 1992. Ms. Chan is the spouse of Mr. Or Naam, sister-in-law of Mr. Or Huen, daughter-in-law of Ms. Chu and sister of Ms. HM Chan.

## Biographical Details of the Directors of the Company and Senior Management (Continued)

**Mr. Or Huen (柯烜先生)**, aged 41, has been with our Group since 2002. He was appointed as an executive Director on 27 February 2017. Mr. Or is also a member of nomination committee of the Company.

Mr. Or Huen is currently the general manager and director of Cosbe, where he oversees all day-to-day aspects of our operations in the PRC including sales and marketing, product research and development, merchandising and production, quality control, strategic planning and new business initiatives.

Mr. Or Huen is an entrepreneur. He has over 15 years of experience in manufacturing and sales of beauty products. Mr. Or Huen was a founding member of Cosbe and has been the general manager since its founding in 2002. At Cosbe Mr. Or Huen planned and built Cosbe's production facility. He established the key business divisions, the four pillars of Cosbe, namely the marketing centre, the development centre, the production centre and the quality control centre.

Mr. Or Huen completed the AFS Programme at Bear River High School in the U.S. for the 1993 to 1994 academic year. Mr. Or Huen obtained a Bachelor of Science Degree in Molecular Biotechnology (Major) and Fine Art (Minor) from the Chinese University of Hong Kong in November 2001. Mr. Or Huen is the brother of Mr. Or Naam, son of Ms. Chu and brother-in-law of Ms. Chan.

### Independent Non-Executive Directors

**Mr. Tan Chong Huat (陳聰發先生)**, aged 54, was appointed as an independent non-executive Director and the non-executive Chairman of the Company on 29 September 2017. He is the chairman of the remuneration committee and a member of audit committee of the Company.

Tan Chong Huat is the Senior Partner and one of the founding members of RHTLaw Taylor Wessing. He also serves as a member of the International Management Board of Taylor Wessing and as the Managing Partner of RHTLaw Taylor Wessing.

His experience and track record, set out below, as a leading finance and corporate lawyer, successful entrepreneur and investor, reputable corporate leader and public service champion, and dedicated law professor coupled with his strong practical and academic grounding throughout his career has made Chong Huat the trusted go-to expert for complex financing (corporate finance and project finance) transactions, deals structuring, funding and matching, corporate governance and board matters, and reputational management matters for corporate leaders and major corporates in the region and internationally.

Chong Huat has extensive experience in corporate, banking and project finance law in Singapore and the region, and acted in numerous significant corporate transactions in the areas of IPOs, RTOs, MBOs, restructuring, M&As, and financing of major real estate and infrastructure. He has been named a leading practitioner in many reputable professional publications, with a recent recognition by IFLR1000 as a "Leading Lawyer" and by Legal 500 Asia Pacific as a "Leading Individual" for Corporate and Mergers & Acquisitions.

## Biographical Details of the Directors of the Company and Senior Management (Continued)

Chong Huat has been helping business owners and family businesses throughout his successful career. He has advised Asian and European high net worth clients in their M&A, listing, divestment, business succession planning, probate, wealth and asset preservation and protection, and family governance. As a trusted go-to adviser, Chong Huat has been appointed as administrator and trustee for the estate of his high net worth clients, as well as counsel in estate disputes involving families of leading Asian conglomerates.

Chong Huat is a Fellow with the Singapore Institute of Directors and has been appointed on the boards as non-executive chairman, and independent director of listed companies in Singapore and Hong Kong. Some of them are government linked entities. He also cofounded RHT group of companies which is the leading professional services group in Asia. Over the years he has successfully invested in start-ups, SMEs and listed companies.

Chong Huat is also active in public service and charity work. He is the Deputy Chairman of the SGX Disciplinary Committee, and also sits as a Lay Person on the Institute of Singapore Chartered Accountants' Investigation and Disciplinary Panel. The Financial Planning Association of Singapore has also recently conferred on Chong Huat an honorary membership. Chong Huat was recently invited to be a member of the Selection Panel of SIM University Law School. He was until recently a council member of the Corporate Governance Council set up by the Monetary Authority of Singapore. He is the council member of the Singapore Road Safety Council as well as Chairman of the The Road Safety Park Committee. He is also a member of the International Affairs Committee of Singapore Chinese Chamber of Commerce & Industry. Chong Huat is also chairman of the RHT Rajan Menon Foundation. He is currently chairman of the fund raising committee of the Singapore Red Cross. He was previously a board member of World Wide Fund for Nature (WWF) Singapore and council member and audit committee chairman of the Football Association of Singapore. He has also established a National University of Singapore Grant in favour of the Law Faculty under the name of his deceased father. An award named RHT Tan Chong Huat Corporate Crime Award has also been established by the School of Law, Singapore Management University.

Despite his active practice, management duties and public service, Chong Huat continues to serve as an adjunct professorial faculty and lecture on a regular basis locally and overseas. He taught at the Law Faculty, National University of Singapore (AY 2007–2013), Business School, National University of Singapore (AY 2008/2009), Nanyang Business School, Nanyang Technological University (AY 2008–2012) and various other universities in Asia. Besides authoring two leading literature on PRC Investment laws, he has co-authored leading titles on Corporate Governance and Corporate Finance Law.

**Mr. Sung Chi Keung (宋治強先生)**, aged 42, was appointed as an independent non-executive Director on 29 September 2017. He is the chairman of the audit committee and a member for each of the remuneration committee and nomination committee of the Company.

Mr. Sung has over 19 years of experience in financial management, accounting, taxation, auditing and corporate finance and previously worked for KPMG, PricewaterhouseCoopers Ltd. and Deloitte & Touche Corporate Finance Ltd. Since April 2015, he has been the chief financial officer of China Chuanglian Education Financial Group Limited (formerly known as China Chuanglian Education Group Limited, China Oriental Culture Group Limited and ZZNode Technologies Company Limited), a company listed on the main board of the Hong Kong Stock Exchange (stock code: 2371).

## Biographical Details of the Directors of the Company and Senior Management (Continued)

Previously, between 15 January 2007 and 30 June 2013, Mr. Sung was an executive director of Asian Citrus Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange (stock code:73) (and formerly listed on the AIM of the London Stock Exchange (stock code: ACHL)). He was also the finance director and the company secretary between August 2004 and June 2013. Between August 2013 and March 2015, Mr. Sung was the chief financial officer and company secretary of China Green (Holdings) Limited (formerly known as China Culiangwang Beverages Holdings Limited), a company listed on the main board of the Hong Kong Stock Exchange (stock code: 904).

Mr. Sung obtained a Bachelor Degree in Business Administration, majoring in Professional Accountancy from the Chinese University of Hong Kong in December 1997 and a Master Degree in Corporate Finance from the Hong Kong Polytechnic University in December 2006. He is an associate member of the HKICPA and a fellow member of the Association of Chartered Certified Accountants.

**Mr. Wong, Irving Holmes Weng Hoong**, aged 46, was appointed as an independent non-executive Director on 29 September 2017. He is the chairman of the nomination committee and a member of audit committee of the Company.

Mr. Wong has approximately two decades of managing businesses in the FMCG (fast-moving consumer goods) industry. Since February 2016, he has been the Managing Director, Greater China for Bacardi (based in Shanghai), responsible for the growth of the portfolio of Bacardi premium brands such as Grey Goose, Bombay Sapphire, Dewar's, Martini, Aberfeldy, Aultmorec. Prior to this appointment, Mr. Wong was the Regional Director, Asia-Pacific, Middle-East & Africa regions for the Global Travel Retail division (based in Hong Kong) for Bacardi since 2013.

Mr. Wong was in the Beauty/Skincare industry for more than 15 years, predominantly with the L'Oreal Group. In 1998, he joined L'Oreal Malaysia where he held various management roles such as Merchandising Manager and National Sales Manager — Food/General Trade before being relocated to L'Oreal Hong Kong in 2007 as General Manager of Consumer Products Division.

In 2009, Mr. Wong joined the Clorox Group in the Asia region as General Manager — Asia for Clorox's newly acquired Burt's Bees brand. At Clorox, Mr. Wong opened new markets in Korea, Thailand, Malaysia and Singapore and further developed the previously established business in Japan, Hong Kong and Taiwan. He helped shaped a new business model for the Asian market (premium retail) which led to the rapid growth of Burt's Bees business in Asia. In 2011, Mr. Wong was appointed Managing Director, Hong Kong and Taiwan for the Revlon Group.

Mr. Wong obtained a Master's Degree in Business Administration from the University of Leicester, United Kingdom in January 2003 and had executive education from Harvard University in July 2016.



## Biographical Details of the Directors of the Company and Senior Management (Continued)

### Senior Management

**Mr. Leung Chu Ho (梁儲豪先生)**, aged 32, is the financial controller of our Group. Mr. Leung joined our Group in December 2016. He is responsible for financial planning, reporting and control, and internal control systems of our Group. Mr. Leung has over 10 years of experience in accounting and auditing. Prior to joining our Group, Mr. Leung worked at PricewaterhouseCoopers from April 2010 to December 2016 and his last position was an assurance manager.

Mr. Leung received a Bachelor of Science in Economics and Finance from the Hong Kong University of Science and Technology in November 2007. He is a member of the HKICPA since September 2011 and a financial risk manager of Global Association of Risk Professionals since September 2010.

**Ms. Lui Shuet Ching (雷雪清女士)**, aged 48, is the accounting and finance manager of our Group. Ms. Lui joined our Group in September 1995 as a clerk of the account department and was promoted to her current position in April 2001. She is primarily responsible for supervising accounting operations, preparing accounting report, reviewing management report and monitoring cash flow status. Ms. Lui possesses over 20 years of experience in accounting and finance.

Ms. Lui passed the examinations held by the London Chamber of Commerce and Industry Examination Board in book-keeping and accounts (second level), cost accounting (second level) and accounting (third level) in 1989, 1993 and 1994, respectively. She also obtained a diploma in accounting and management in February 2006 from the Caritas Bianchi College of Careers (Evening) in Hong Kong and a diploma in business strategy and tactics in July 2008 from the Vocational Training Council in Hong Kong.

**Ms. Chan Hoi Man (陳凱雯女士)** (“Ms. HM Chan”), aged 38, is the merchandising manager of our Group. Ms. HM Chan joined our Group in May 1997 as a merchandiser and was promoted to her current position in February 2016. She is primarily responsible for leading and managing the operations of the merchandising team in the PRC, approving purchase orders of raw material for production, liaising with customers and providing price quotation. Ms. HM Chan has approximately 20 years of experience in the manufacturing industry. Ms. HM Chan is the sister of Ms. Chan.

**Ms. Chu Choi Yin (朱彩燕女士)** (“Ms. CY Chu”), aged 36, is the sales manager of our Group. Ms. CY Chu joined our Group in October 2005 as a sales executive and was promoted to her current position in April 2013. She is responsible for product development and customer service, as well as leading the sales team in the PRC to monitor the progress of projects. Ms. CY Chu has over 11 years of experience in the sales and marketing industry. Prior to joining our Group, Ms. CY Chu was a merchandiser at Ellon Gift Products Ltd. from August 2001 to June 2003.

**Mr. Ng Chit Sing (吳捷陞先生)** (“Mr. Ng”), aged 45, was appointed as our company secretary in February 2017. He is the chief executive officer of IN Corporate Services Limited specialising in the provision of corporate secretarial services to listed issuers and private companies.

Mr. Ng is currently acting as named company secretary/joint company secretary of certain companies listed on the Main Board or GEM of the Stock Exchange of Hong Kong Limited. Mr. Ng was admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in England in July 2000. Mr. Ng received a Bachelor's Degree in Social Sciences in 1996 and a Bachelor's Degree in Laws in August 2008.

## Report of the Directors

The directors of the Company (the “Directors”) have pleasure in presenting their first annual report together with the audited consolidated financial statements of the Group (the “Consolidated Financial Statements”) for the year ended 31 December 2017 (the “Year”).

### Principal Activities and Business Review

The principal activity of the Group is (i) the design, development, manufacture and sale of beauty products; and (ii) the design, development and sale of beauty bags. Details of the principal activities of the principal subsidiaries of the Company are set out in note 14 to the Consolidated Financial Statements.

The business review of the Group for the Year together the future business development as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are set out in the section headed “Management Discussion and Analysis” on pages 5 to 10 of this annual report. This discussion form part of the report of directors.

### Environmental Policies and Performance

Discussion on the environmental policies and performance is contained in the “Environmental, Social and Governance Report” on pages 46 to 56 of this annual report. This discussion form part of the report of directors.

### Compliance with Laws and Regulations

Sufficient resources and training have been allocated and provided to ensure the on-going compliance with applicable laws and regulations. During the Year, the Board is not aware of any incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group’s business where the Group is operating.

### Relationship with key parties

The success of the Group also depends on the support from key parties which comprise customers, suppliers, employees and shareholders.

#### Customers

The Group’s principal customers mainly include retailers, beauty product brand owners and trading companies. Our sales and marketing efforts have focused on the provision of competitive prices, reliable and timely delivery, and quality products and services to them. We have established a long term relationship with our major customers and therefore focus on manufacturing and/or selling quality assured products to maintain our reputation in the industry.

We have a close working relationship with our customers throughout the sales process from the product design and development stage to production phase and product delivery. We communicate with our key customers to better understand their needs and produce products to match the desired image of their brands.

## Report of the Directors (Continued)

### Suppliers

Good relationship with suppliers constitutes one of the essential elements of the Group's success. In order to ensure the quality of supplies which would enhance consistency in our product qualities, we have a strict system for selecting our suppliers. We have adopted and implemented written guidelines and policies governing our procedures in selecting new suppliers and monitoring the on-going performance of the existing suppliers. We would also demand our chosen suppliers to comply with relevant local and industrial quality control standards and perform quality tests on the supplied materials.

### Employees

The Group focuses on the talents of our employees as our most valuable asset. We strive to create a good workplace that our employees are happy and motivated to work in. Our employees are treated fairly with respect and we reward performing staff by providing competitive remuneration packages and implementing an effective performance appraisal system with appropriate incentives, namely equal promotion opportunity.

### Shareholders

The principal goal of the Group is to maximize the return to the shareholders of the Company. The Group will focus on our core business for achieving sustainable profit growth and rewarding the shareholders with dividend payouts taking into account the business development needs and financial health of the Group.

### Principal Risks and Uncertainties

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarized below:

The sales and profitability of our products are dependent on our customers' business performance. We sell our products mainly to retailers, beauty products brand owners and trading companies. The business performance of our customers could underperform due to a number of factors, such as changes in business strategies, failure to develop successful marketing strategies, changes in the market demand for our customers' products and adverse market or economic conditions in the markets in which our customers operate, in particular, the U.S. If the business performance of our customers deteriorates, they could reduce the amount of their purchases for our products, or terminate their business relationship from us, which could have a material and adverse impact on our business, financial condition, results of operations and prospect.

Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations.

As we expand our production capabilities and capacities, we will require more production personnel. There is no assurance that we will not experience any shortage of labour for our production. Given the economic growth in the PRC, competition for labour is substantial and labour costs have been increasing generally, and we cannot assure that we can retain and attract sufficient qualified employees and/or on commercially reasonable terms in the future. If we fail to retain and attract sufficient labour, we may not be able to effectively implement our expansion plans, our business, financial conditions and results of operations would be materially and adversely affected.

## Report of the Directors (Continued)

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect our business, financial condition and results of operations.

The Group maintained substantial amount of business assets and operations in the PRC. Accordingly, our results of operations are subject to economic, political and legal developments in the PRC. Any changes in its regulations will definitely affect our business in this regional segment.

### Results and Appropriations

The results of the Group for the Year are set out in the Consolidated Financial Statements on pages 62 to 123.

The Directors did not recommend the payment of a final dividend to shareholders of the Company for the Year (2016: Nil).

### Three Years Financial Summary

A summary of the published results, assets and liabilities of the Group for the last three financial years is set out on page 124. This summary does not form part of the Consolidated Financial Statements.

### Share Capital

As at 31 December 2017, 400,000,000 shares of the Company were in issue. Details of the movement in share capital during the Year are set out in note 22 to the Consolidated Financial Statements.

### Equity-Linked Agreements

Other than the share option scheme of the Company, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year or subsisted at the end of the Year.

### Pre-Emptive Rights

There is no provision for the 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.

### Purchase, Sale or Redemption of the Company's Listed Securities

The Company has not redeemed any of its shares during the period from 27 October 2017, the listing date, to 31 December 2017. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares from 27 October 2017 to 31 December 2017.

## Report of the Directors (Continued)

### Distributable Reserves

As at 31 December 2017, the Company did not have any reserves available for distribution (2016: Nil). Details of the movement in reserve during the Year are set out in note 34 to the Consolidated Financial Statements.

### Charitable Donations

During the Year, charitable and other donations made by the Group amounted to HK\$4,000.

### Major Customers and Suppliers

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

Purchases	
— the largest supplier	12.8%
— five largest suppliers in aggregate	39.1%
Sales	
— the largest customer	28.0%
— five largest customers in aggregate	90.2%

For the year ended 31 December 2017, one of our top five suppliers is a connected person of the Company and supplied the Group with beauty bags.

Save for the purchases from the connected person, none of the Directors or their respective close associates or any of our existing shareholders, whom to the best knowledge of the Directors owns more than 5% of the Company's issued share capital, has any interest in any of the Group's five largest customers or suppliers during the Year.

For details, please refer to the paragraph headed "Continuing Connected Transactions" on pages 23 to 25 of this annual report.

## Report of the Directors (Continued)

### Directors and Directors' Service Contracts

The directors of the Company who held office during the Year were:

#### Executive Directors:

Mr. Or Naam (*Chief Executive Officer*) (*appointed on 8 February 2017*)

Ms. Chan Hoi Yan Polly (*appointed on 27 February 2017*)

Mr. Or Huen (*appointed on 27 February 2017*)

#### Independent Non-executive Directors:

Mr. Tan Chong Huat (*Chairman*) (*appointed on 29 September 2017*)

Mr. Sung Chi Keung (*appointed on 29 September 2017*)

Mr. Wong, Irving Holmes Weng Hoong (*appointed on 29 September 2017*)

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on 27 October 2017, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year commencing on 27 October 2017, which may be terminated by not less than one month's notice in writing served by either party on the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting, and will continue thereafter until terminated in accordance with the terms of the service agreement/letter of appointment.

In accordance with the Article 83(3) of Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with the Article 84(1) of Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

Accordingly, Mr. Or Naam, Ms. Chan Hoi Yan Polly, Mr. Or Huen, Mr. Tan Chong Huat, Mr. Sung Chi Keung and Mr. Wong, Irving Holmes Weng Hoong, being all Directors of the Company, shall retire from office at the forthcoming annual general meeting to be held on 11 May 2018 (the "AGM"). All of the retired directors, being eligible, offer themselves for re-election, at the AGM.

Apart from the foregoing, no Director proposed for re-election at the AGM has a service contract/letter of appointment which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## Report of the Directors (Continued)

### Confirmation on Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

### Biographical Details of Directors and Senior Management

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Biographical Details of the Directors and Senior Management on pages 11 to 15 of this annual report.

### Changes of Directors' Information Under Rule 17.50A(1) of the Gem Listing Rules

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change of information of Directors since the publication of Prospectus of the Company was as follows:

Mr. Tan Chong Huat has resigned as an independent director of SIIC Environmental Holding Limited (SGX: BHK) on 22 December 2017.

Save for the information above, the Company is not aware of any other change in the Directors' information which are required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

### Permitted Indemnity Provisions

Pursuant to Article 164 of the Articles of Association of the Company, the Directors, secretary and other officers and every auditor for the time being of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

Such provision was in force during the Year. In addition, the Company has also maintained Directors' and officers' liability insurance during the Year, which provides appropriate cover for the directors and officers of the Group.

## Report of the Directors (Continued)

### **Directors' Emoluments and Five Highest Paid Individuals**

The Directors' emoluments are subject to shareholders' approval at annual general meeting. Other emoluments are determined by the Board of the Company with reference to the recommendations by remuneration committee of the Company, directors' duties, responsibilities and performance and the results of the Group.

Details of the Directors' emoluments and five highest paid individuals are set out in note 10 to the Consolidated Financial Statements of the annual report.

### **Emolument Policy**

A remuneration committee was set up by the Board to develop the Group's emolument policy and structure for remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

### **Directors' Material Interests in Transactions, Arrangements and Contracts that are Significant in Relation to the Company's Business**

During the Year, the Group entered into certain related party transactions including continuing connected transactions, which are disclosed in note 32 to the Consolidated Financial Statements and under headed "Continuing Connected Transactions" below. Such transactions were conducted in the normal course of business.

Save as disclosed and the service contract/letter of appointment with the Directors, no other transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had, directly or indirectly, a material interest subsisted at the end of the Year or at any time during the Year.



## Report of the Directors (Continued)

### Continuing Connected Transactions

The following table summarized the continuing connected transactions of the Company during the Year:-

Agreement	Parties	Term	Location	Annual cap	Actual
				for the year ended 31 December 2017	amount paid for the year ended 31 December 2017
				HK\$'000	HK\$'000
Hong Kong Office Tenancy Agreement	Takbo (as tenant) and Sky Choice* (as landlord)	3 years from 27 October 2017	Room B, 35th Floor, EGL, Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong ("EGL Tower") and car parking space nos. P24, P25 and P26 located on 2nd Floor, EGL Tower	877	877
Residential Tenancy Agreement	Takbo (as tenant) and Smart Path* (as landlord)	3 years from 27 October 2017	House 62, The Giverny, Man Kei Toi, Pak Sha Wan, Sai Kung, New Territories, Hong Kong	1,200	1,200
Factory Tenancy Agreement 1	Cosbe (as tenant) and Baoma* (as landlord)	10 years from 27 October 2017	Factory, warehouse and office premise at No. 5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	1,550 for Factory Tenancy Agreements 1 and 2	1,143
Factory Tenancy Agreement 2	Cosbe (as tenant) and Baoma (as landlord)	10 years from 27 October 2017	Factory premise at No. 5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC		

## Report of the Directors (Continued)

Agreement	Parties	Term	Location	Annual cap	Actual
				for the year ended 31 December 2017	amount paid for the year ended 31 December 2017
				HK\$'000	HK\$'000
Factory Tenancy Agreement 3	Cosbe (as tenant) and Baoma (as landlord)	10 years from 27 October 2017	1st to 4th Floors of South Building, No. 1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	1,100 for Factory Tenancy Agreements 3 and 4	485
Factory Tenancy Agreement 4	Cosbe (as tenant) and Baoma (as landlord)	10 years from 27 October 2017	1st to 4th Floors of North Building and West Building, No. 1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC		
PRC Office Tenancy Agreement	Takbo (as tenant) and Baoma (as landlord)	3 years from 27 October 2017	Factory premise situated at 2nd Floor of Block C, No. 1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	42	37
Purchase Framework Agreement	Takbo (as purchaser) and Baoma (as supplier)	3 years from 27 October 2017	N/A	13,500	12,924

\* Both Sky Choice and Smart Path are owned as to 50% by Mr. Or Naam, an executive Director and a controlling shareholder of the Company, and both Sky Choice and Smart Path are therefore an associate of Mr. Or Naam and accordingly are connected persons of the Company. Baoma, is wholly owned by Tak Bo Hong, a partnership between Ms. Chu Siu Fong, a controlling shareholder of the Company and Mr. Or Tak Ming, the spouse of Ms. Chu Siu Fong. Therefore, Baoma is an associate of Ms. Chu Siu Fong and accordingly is connected person of the Company.

For further details, please refer to the prospectus of the Company dated 13 October 2017.

## Report of the Directors (Continued)

### Confirmation of Independent Non-executive Directors

Pursuant to Rule 20.53 of the GEM Listing Rules, the audit committee comprising three independent non-executive Directors, under the authority delegated by the Board, reviewed all the aforesaid continuing connected transactions. All of the independent non-executive Directors confirmed that:

The continuing connected transactions were entered into in the ordinary and usual course of business of the Group, and on normal commercial terms or better and which are no less favourable than those terms available from independent third parties, and the terms of the continuing connected transactions under the respective agreements are fair and reasonable and in the interest of the Company and the shareholders as a whole.

During the Year, the actual amounts of all the continuing connected transactions paid under the agreements did not exceed the respective aggregate annual cap as previously disclosed in the prospectus of the Company dated 13 October 2017.

### Confirmation of Auditors of the Company

The Company's auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Listing Rules" issued by the HKICPA. The external auditor issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transaction in accordance with Rule 20.54 of the GEM Listing Rules. A copy of the auditors' letter has been provided to the Stock Exchange in accordance with the requirements of the GEM Listing Rules.

### Non-Compete Undertaking

Classic Charm Investments Limited, Mr. Or Naam, Ms. Polly Chan and Ms. Chu Siu Fong (the "Controlling Shareholders") gave a non-competition undertaking in favour of the Company, pursuant to which the Controlling Shareholders undertake and covenant with the Company that they shall not, and shall procure any Covenantor and their close associates (each a "Controlled Person" and collectively, the "Controlled Persons") and any company directly or indirectly controlled by the Covenantor (which for the purpose of the Deed of Non-Competition, shall not include any member of our Group) (the "Controlled Company") not to, except through any member of our Group, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on or contemplated to be carried on by any member of our Group from time to time or in which any member of our Group is engaged or has invested or is otherwise involved in or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) in any territory that our Group carries on its business from time to time.

The Company has received the confirmation from the Controlling Shareholders in respect of their compliance with the terms of non-competition undertaking for the period from 27 October 2017, the listing date, to 31 December 2017.

## Report of the Directors (Continued)

The independent non-executive Directors had reviewed and confirmed that the Controlling Shareholders have complied with the non-competition undertaking and the non-competition undertaking has been enforced by the Company in accordance with its terms for the period from 27 October 2017, the listing date, to 31 December 2017. Furthermore, there was no new business opportunities referred by the Controlling Shareholders to the Company during the same period.

### **Related Parties Transactions**

Details of the related parties transactions undertaken in the normal course of business are set out in note 32 to the Consolidated Financial Statements. Certain of which also constitute discloseable connected transactions under the GEM Listing Rules. These connected transactions have complied with the requirements under Chapter 20 of the GEM Listing Rules.

### **Conflict of Interests**

Saved as disclosed above, during the period from 27 October 2017, the listing date, to 31 December 2017, none of the directors, the substantial shareholders or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

### **Share Option Scheme**

The Company has conditionally adopted the share option scheme ("Share Option Scheme"), which was approved by written resolutions passed by its sole Shareholder on 29 September 2017 and became unconditional on 27 October 2017. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

The purpose of the Share Option Scheme is to advance the interests of the Company and the shareholders by enabling the Company to grant options to attract, retain and reward the eligible persons and to provide the eligible persons an incentive or reward for their contribution to the Group and by enabling such persons' contribution to further advance the interests of the Group.

The Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption, after which period no further options will be granted or offered.

As at 31 December 2017, there was no option outstanding, granted, cancelled, exercised or lapsed.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "13. Share Option Scheme" in section headed "Statutory and General Information" in Appendix IV to the prospectus of the Company dated 13 October 2017.

## Report of the Directors (Continued)

Apart from the aforesaid Share Option Schemes, at no time during the year ended 31 December 2017 was the Company or any associated corporation a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such rights.

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

As at 31 December 2017, the interests or short positions of Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

#### Long Position in the Ordinary Shares and Underlying Shares of the Company

##### Interests in the Company

##### *Interests in ordinary shares*

Name of director	Personal interests	Family interests	Corporate interests	Total	Total	Aggregate interests	% of the
				interests in ordinary shares	interests in underlying shares		Company's issued voting shares
Mr. Or Naam <sup>Note</sup>	—	—	300,000,000	300,000,000	—	300,000,000	75%
Ms. Chan Hoi Yan Polly <sup>Note</sup>	—	—	300,000,000	300,000,000	—	300,000,000	75%

*Note:* The 300,000,000 shares are beneficially held by Classic Charm Investments Limited, which is legally and beneficially owned as to 50.8% by Mr. Or Naam, as to 39.7% by Ms. Chu Siu Fong and 9.5% by Ms. Chan Hoi Yan Polly. As Mr. Or Naam, Ms. Chu Siu Fong and Ms. Chan Hoi Yan Polly are parties acting in concert, they are deemed to be interested in 300,000,000 Shares held by Classic Charm Investments Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2017, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

## Report of the Directors (Continued)

### Substantial Shareholder's Interests and/or Short Position in Shares and Underlying Shares of the Company

As at 31 December 2017, the following persons/entities (not being Directors or chief executive of our Company) have an interest or a short position in the Shares or the underlying Shares which were disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, were as follows:

#### Long position in the ordinary shares and underlying shares of the Company

Name of shareholders	Capacity	Number of shares held	% of the Company's issued voting shares
Classic Charm Investments Limited	Beneficial owner	300,000,000	75%
Ms. Chu Siu Fong <sup>Note</sup>	Interest in controlled corporation	300,000,000	75%

*Note:* The 300,000,000 shares are beneficially held by Classic Charm Investments Limited, which is legally and beneficially owned as to 50.8% by Mr. Or Naam, as to 39.7% by Ms. Chu Siu Fong and 9.5% by Ms. Chan Hoi Yan Polly. As Mr. Or Naam, Ms. Chu Siu Fong and Ms. Chan Hoi Yan Polly are parties acting in concert, they are deemed to be interested in 300,000,000 Shares held by Classic Charm Investments Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### Interests of the Compliance Adviser

As notified by Lego Corporate Finance Limited, compliance adviser of our Company, neither Lego Corporate Finance Limited nor any of its close associates (as defined in the GEM Listing Rules) and none of the directors or employees of Lego Corporate Finance Limited had any interest in the share capital of the Company or any member of our Group (including options or rights to subscribe for such securities, if any) which is required to be notified to our Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 December 2017.

### Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the GEM Listing Rules of at least 25% of the Company's total number of issued shares which was held by the public.

## Report of the Directors (Continued)

### **Corporate Governance Report**

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 30 to 45 in this annual report.

### **Closure of the Register of Members**

The Register of Members of the Company will be closed from Tuesday, 8 May 2018 to Friday, 11 May 2018 (both days inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the AGM of the Company, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 7 May 2018.

### **Auditors**

The Consolidated Financial Statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment. A resolution to re-appoint the retiring auditors is to be proposed at the AGM.

By order of the Board

**Takbo Group Holdings Limited**

**Or Naam**

*Chief Executive Officer and Executive Director*

Hong Kong, 20 March 2018

# Corporate Governance Report

## Corporate Governance Principles and Practices

The Board and the management of the Company are committed to a high standard of corporate governance. The Company considers such commitment is essential for the effective management, a healthy corporate culture, a successful business growth, balancing of business risk and enhancing of shareholders' value.

During the period from 27 October 2017, the listing date, to 31 December 2017 (the "Review Period"), the Board considers that the Company has complied with all the corporate governance codes (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules.

## The Board of Directors

### Responsibilities

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Company. The delegated functions and work tasks are reviewed by the Board periodically.

### Composition

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

Throughout the Review Period, the Board comprises six Directors. As at the date of this annual report, there are three executive Directors and three independent non-executive Directors of the Company. The composition of the Board is as follows:

#### Executive Directors:

Mr. Or Naam (*Chief Executive Officer*) (*appointed on 8 February 2017*)

Ms. Chan Hoi Yan Polly (*appointed on 27 February 2017*)

Mr. Or Huen (*appointed on 27 February 2017*)

#### Independent Non-executive Directors:

Mr. Tan Chong Huat (*Chairman*) (*appointed on 29 September 2017*)

Mr. Sung Chi Keung (*appointed on 29 September 2017*)

Mr. Wong, Irving Holmes Weng Hoong (*appointed on 29 September 2017*)

During the Review Period, there was no change in the composition of the Board.



## Corporate Governance Report (Continued)

The relationship among members of the Board and biographical details and responsibilities of the Directors as well as the senior management are set out in the section “Biographical Details of the Directors and Senior Management” on pages 11 to 15. The updated list of Directors and their role and function are published at the GEM website and the Company’s website at [www.takbogroup.com](http://www.takbogroup.com).

Save as disclosed in the section headed “Biographical Details of the Directors and Senior Management” to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

The Board is accountable to shareholders for the Company’s performance and activities. While the Board is primarily overseeing and managing the Company’s affairs, the Chairman of the Board helps the Board to provide the Company with effective leadership and ensure the continuing effectiveness of the management team and the high standards of probity within the Company. The executive Directors constituting the senior management of the Company are delegated with responsibilities in the day-to-day management of the Company and make operational and business decisions within the control of and delegation framework of the Company. The independent non-executive Directors contribute valuable views and proposals for the Board’s deliberation and decisions.

The Company has throughout the Review Period met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications, accounting or related financial management expertise. At all times during the Review Period, the independent non-executive Directors represent at least one-third of the Board.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence for the Review Period. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the GEM Listing Rules throughout the Review Period.

The roles of the Chairman and the Chief Executive Officer of the Company are separated. Mr. Tan Chong Huat is the non-executive Chairman of the Board. The primary role of the Chairman is to help the Board to provide the Company with effective leadership and ensure the continuing effectiveness of the management team and the high standards of probity within the Company. Mr. Or Naam is the Chief Executive Officer of the Company. He oversees all aspects of the operations of the Group including sales and marketing, product development, merchandising, production, design, research, strategic planning, formulation of corporate policies and new business initiatives. His key focus is to further establish and manage the Group’s overseas customers.

Other matters reserved for the Board include consideration of dividend policy, approval of major investments, maintenance of an adequate system of internal controls and review of the corporate governance practices of the Group. Daily operations and administration are delegated to management teams.

## Corporate Governance Report (Continued)

### Appointment and Re-election of Directors

The Board as a whole, with the assistance of nomination committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of INEDs.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on 27 October 2017, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year commencing on 27 October 2017, which may be terminated by not less than one month's notice in writing served by either party on the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting, and will continue thereafter until terminated in accordance with the terms of the service agreement/letter of appointment.

In accordance with the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Such retiring Directors shall be eligible for re-election at the annual general meeting.

Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

### Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. The Directors make every effort to contribute to the formulation of policy, decision-making and the development of the Group's business.

During the Review Period, the Company has held one meeting for each of the Board remuneration committee, nomination committee and audit committee and the Chairman met with all independent non-executive directors without the presence of the executive directors.

## Corporate Governance Report (Continued)

### Directors' Attendance at Board/Board Committee/General Meetings

Here below are details of all Directors' attendance at the board meeting, board committee meetings and general meeting held during the Review Period:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
<b>Executive Directors</b>				
Mr. Or Naam	1/1	N/A	1/1	N/A
Ms. Chan Hoi Yan Polly	1/1	N/A	N/A	N/A
Mr. Or Huen	1/1	N/A	N/A	1/1
<b>Independent Non-executive Directors</b>				
Mr. Tan Chong Huat	1/1	1/1	1/1	N/A
Mr. Sung Chi Keung	1/1	1/1	1/1	1/1
Mr. Wong, Irving Holmes Weng Hoong	1/1	1/1	N/A	1/1

### Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to all directors in advance. Notices of regular meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. All Directors are consulted to include additional matters in the agenda for such meetings.

Board paper together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep them apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. Queries raised by directors shall receive a prompt and full response by the management.

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 8 February 2017 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 7 March 2017. The Company shall hold its first annual general meeting by 30 June 2018. At the annual general meeting, the Chairman as well as chairmen of the nomination committee, remuneration committee and audit committee or, in their absence, other members of the respective committees will be invited to attend to answer questions from shareholders at the annual general meeting.

Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

The company secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Both draft and final versions of the minutes will be sent to all Directors for their comment and records. Minutes of board and board committee meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

## Corporate Governance Report (Continued)

According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. Upon reasonable request, the Company should provide separate independent professional advice to directors to assist them to discharge their duties in the appropriate circumstance.

### Procedure for Seeking Independent Professional Advice by Directors

The Company has agreed to provide separate independent professional advice and sufficient resources to Directors and all Board Committees to assist them to discharge their duties in compliance with the GEM Listing Rules and CG Code. The Company will develop written procedures to enable Directors and members of all Board Committees, upon reasonable request, to seek and be provided with independent professional advice in appropriate circumstances, at the Company's expense.

The Company has subscribed an insurance policy with an aim to indemnify its Directors and senior management from any losses, damages, liabilities and expenses arising from, including but not limited to, any proceedings brought against them during the performance of their duties pursuant to their respective services agreements entered into with the Company.

### Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines throughout the Review Period.

### Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the Review Period.

### Induction and Continuous Professional Trainings of Directors

Arrangements have been made to provide each new director a comprehensive, formal and tailored induction on the first occasion of his appointment and continuing briefing and professional development when necessary.

Each newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

## Corporate Governance Report (Continued)

The Directors have also been informed of the requirement under Code Provision A.6.5 of the CG Code as set out in Appendix 15 to the GEM Listing Rules regarding continuous professional development.

The Company will keep on inviting professionals to conduct trainings to senior personnel (including all directors) of the Company so as to refresh their knowledge and to discharge their duty as director of a listed company.

### Board Committees

#### Audit Committee

The Company established an audit committee on 29 September 2017 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the CG Code as set out in Appendix 15 to the GEM Listing Rules. The terms of reference of the audit committee are available on the websites of the Company and the Stock Exchange.

The responsibility of the audit committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting, risk management and internal control principles and procedures, and to provide advice and comments to the Board. The members meet regularly with the external auditor and/or the Company's senior management for the review, supervision and discussion of the Company's financial reporting, risk management and internal control procedures and ensure that the board and the management have discharged their duties to have an effective risk management and internal control systems.

The composition of the audit committee during the Review Period and up to the date of this report is as follows:

Mr. Sung Chi Keung (*Chairman*)  
Mr. Tan Chong Huat  
Mr. Wong, Irving Holmes Weng Hoong

All of the members of the audit committee are independent non-executive Directors. None of them is a former partner of the Company's existing auditing firm. Mr. Sung Chi Keung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the Chairman of the Audit Committee.

Since its establishment on 29 September 2017, the audit committee held only one meeting during the Review Period. Details of the attendance of the members of the audit committee in the said meeting are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above.

## Corporate Governance Report (Continued)

The summary of work of the audit committee during the Review Period and up to the date of this report is as follows:

- To meet with the external auditors, reviewed and made recommendations for the Board's approval on the financial statement, quarterly reports and continuing connected transactions of the Group;
- To review and approved audit fee;
- To recommend the re-appointment of PricewaterhouseCoopers as auditors, subject to the Shareholders' approval at the annual general meeting;
- To review the non-competition undertaking by the Controlling Shareholders of the Company;
- To review the effectiveness of the Company's risk management and internal control systems; and
- To review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The audit committee has not taken a different view from the Board regarding the selection and re-appointment of external auditor.

### Remuneration Committee

The Company established the remuneration committee on 29 September 2017 with written terms of reference in compliance with the CG Code as set out in Appendix 15 to the GEM Listing Rules. The written terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange.

The remuneration committee is responsible for formulating and making recommendations to the Board on the Company's emolument policy and on the establishment of a formal and transparent procedure for developing such policy. The Board expects the remuneration committee to exercise independent judgment and ensures that executive Directors do not participate in the determination of their own remuneration.

The composition of the remuneration committee during the Review Period and up to the date of this report is as follows:

Mr. Tan Chong Huat (*Chairman*)

Mr. Sung Chi Keung

Mr. Or Naam

The majority members of the remuneration committee are independent non-executive Directors. Since its establishment on 29 September 2017, the remuneration committee held only one meeting during the Review Period. Details of the attendance of the members of the remuneration committee in the said meeting are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above.

## Corporate Governance Report (Continued)

The summary of work of the remuneration committee during the Review Period and up to the date of this report is as follows:

- To review and recommend to the Board on the Group's remuneration policy and strategy;
- To review and recommend to the Board on the remuneration packages of the executive Directors and senior management of the Company; and
- To review and recommend to the Board on the Directors' fees of independent non-executive Directors.

### Nomination Committee

The Company established the nomination committee on 29 September 2017 with written terms of reference in compliance with the CG Code as set out in Appendix 15 to the GEM Listing Rules. The written terms of reference of the nomination committee are available on the websites of the Company and the Stock Exchange.

The primary duties of the nomination committee include reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Directors, assessing the independence of independent non-executive Directors and making recommendations to the Board on appointment and re-appointment of Directors.

The composition of the nomination committee during the Review Period and up to the date of this report is as follows:

Mr. Wong, Irving Holmes Weng Hoong (*Chairman*)  
Mr. Sung Chi Keung  
Mr. Or Huen

The majority members of the nomination committee are independent non-executive Directors. Since its establishment on 29 September 2017, the nomination committee held only one meeting during the Review Period. Details of the attendance of the members of the nomination committee in the said meeting are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above.

The summary of work of the nomination committee during the Review Period and up to the date of this report is as follows:

- reviewed the existing Board's structure, size and composition; and
- made recommendations on the retiring Directors at the 2017 AGM of the Company.

## Corporate Governance Report (Continued)

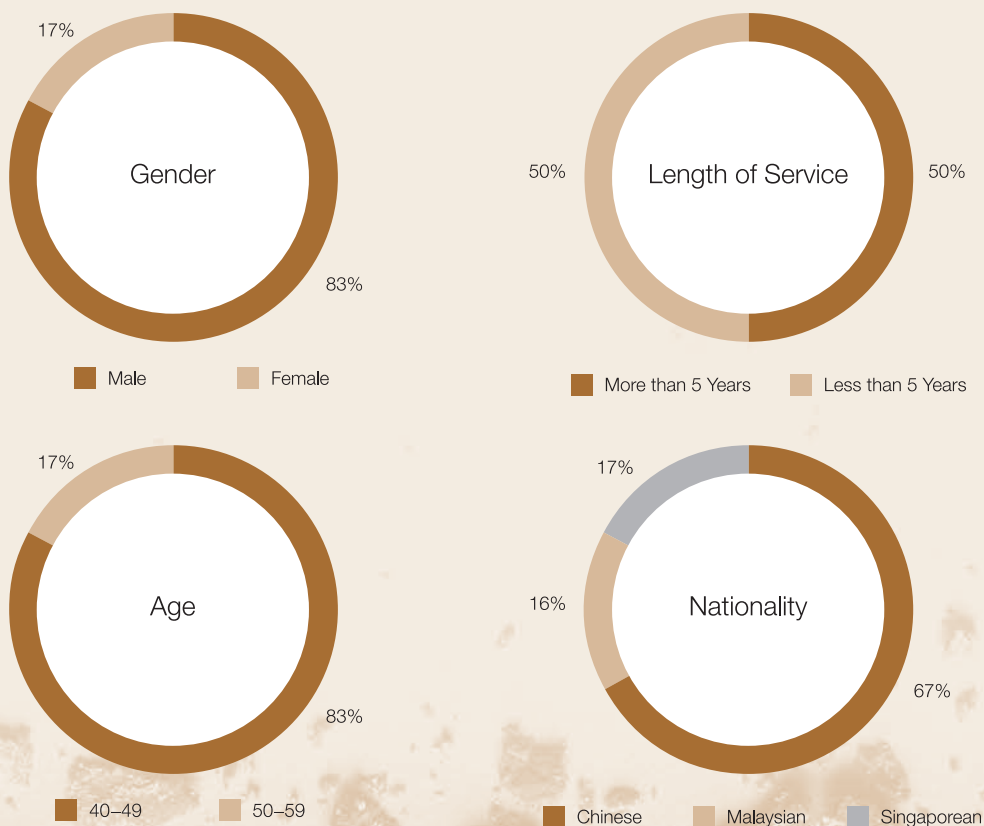
### Board diversity policy

The Company recognises the benefits of having diversity in the composition of the Board and adopted its own board diversity policy.

The Company noted that that people from different backgrounds and with different professional and life experience are likely to approach problems in different ways and accordingly, members of the Board with diverse backgrounds will bring different concerns and questions to the table, and allow the Board to consider a wider range of options and solutions when deciding on corporate issues and formulating policies for the Group. In determining the Board's composition and selection of candidates to the Board, factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service will be considered. All Board appointments will be based on meritocracy, and candidates will be considered against the selection criteria, having regard for the benefits of diversity on the Board, the business model and specific needs of the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

### Composition of the Diversified Board

Composition of the Board in terms of gender, length of service with the Group, age and nationality during the Review Period and up to the date of this report is as follows:



*Note:* Nationality is based on passport and does not necessarily reflect ethnic origin.



## Corporate Governance Report (Continued)

The nomination committee has monitored the implementation of the board diversity policy since its adoption, and also reviewed it to ensure its effectiveness and concluded that no revision to the policy is required at the last nomination committee meeting held.

### Corporate Governance Function

During the Review Period and up to the date of this report, the Board has reviewed the corporate governance practices of the Company with reference to the CG Code as set out in Appendix 15 to the GEM Listing Rules. The summary of their work of is as follows:

- To review the Company's policies and practices on corporate governance and make recommendations;
- To review and monitor the training and continuous professional development of Directors and senior management of the Group;
- 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 applicable to employees of the Group and the Directors; and
- To review the Company's compliance with CG Code and disclosure in the corporate governance report.

## Remuneration of Directors and Senior Management

### Emolument Policy

The remuneration policy of the Group is to ensure the fairness and competitiveness of total remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and prevailing market conditions. The remuneration policy of non-executive Directors and independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. Their emoluments are determined with reference to their skills, experience, knowledge, duties and market trends.

## Accountability and Audit

### Financial Reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of financial reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

## Corporate Governance Report (Continued)

The Board acknowledges its responsibility for the preparation of the Consolidated Financial Statements for the year ended 31 December 2017 which give a true and fair view of the state of affairs of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirement under the GEM Listing Rules. The financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements.

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 auditors about their reporting responsibilities is set out in the "Independent Auditors' Report" on pages 57 and 61 of the Consolidated Financial Statements.

### External Auditors' Remuneration

The remuneration paid or payable to PricewaterhouseCoopers, external auditor during the year ended 31 December 2017 included fees in respect of audit services of HK\$868,000, audit-related services of HK\$3,120,000 and non-audit services of HK\$820,000. Audit-related and non-audit services include primarily work conducted in connection with Company's listing and tax advisory services.

The audit committee has expressed its views to the Board that the level of fees paid/payable to the Company to the Company's external auditors for annual audit services is reasonable. There has been no major disagreement between the auditors and the management of the Company during the Year.

### Risk Management and Internal Control Systems

The Board is accountable for overseeing the Group's risk management and internal control systems and reviewing its effectiveness annually, while the management are responsible for implementing and maintaining the internal controls systems that covers governance, compliance, risk management, financial and operational controls to safeguard the Group's assets and stakeholders' interests. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Procedures are in place to identify major business risks and evaluate potential financial implications.

## Corporate Governance Report (Continued)

During the year ended 31 December 2017, the audit committee of the Company, through the engagement of APAC Compliance Consultancy and Internal Control Services Limited (“APAC”), reviewed the adequacy and effectiveness of the Group’s system of internal controls, including financial, operational, compliance, risk management policies and systems established the Company in connection with risk management process, entity level control environment, resources, qualifications and experience of staff of accounting, internal audit and financial reporting, expenditure requisition process, and handling and dissemination of inside information process. The reviewed policies included the following:

- Risk management policy
- Insurance policy
- Corporate governance practice manual
- Staff handbook
- Anti-fraud and whistle-blowing policy
- Prevention of bribery policy
- Code of ethics and securities transactions
- Company & human resources policy

APAC reported to the audit committee that they has identified, evaluated and managed risks through the following process:

- Risk identification
- Risk analysis
- Risk evaluation
- Risk treatment
- Risk monitoring and reporting

Based on their procedures performed and understanding of normal industrial practice, APAC reported that no significant deficiencies were identified and suggested recommendations to audit committee and management for their consideration for the purpose on improvement on our risk management and control systems.

## Corporate Governance Report (Continued)

Based on the review of and recommendations on risk management and internal control systems of the Group provided by APAC, audit committee reported such findings and recommendations for the improvement of the risk management and internal control systems to the Board and the Board considered that all recommendations should be properly followed to ensure the sound and effectiveness of the risk and internal control systems of the Group can be maintained.

In addition, the Board had received confirmation from the management that:

- The financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of the Group; and
- The risk management and internal control systems of the Group are effective.

Based on the framework for risk management and internal control system established by the Group, the Board and the audit committee admitted that through the review of risk management and internal control systems of the Group, it can evaluate and improve its effectiveness, and the Board, with the concurrence of the audit committee, considered that such systems including financial, operational and compliance were effective and adequate for the year ended 31 December 2017 based on the work performed and report prepared by APAC as well as the confirmation letter received by the management. The Company will perform the ongoing assessment to update the all material risk factors on a regular basis. In any case, review on risk management and internal control system will be conducted annually.

### Internal Audit

During the year ended 31 December 2017, the Group has outsourced its internal audit function to APAC, whom reported their audit findings and recommendations directly to the audit committee of the Company. APAC conducted its internal audit review activities including planning, coordinating, managing and implementing internal audit work cycle upon communication with the management. Their engagement was undertaken in accordance with “Internal Control — Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Board, audit committee and management of the Group agreed on the internal audit findings and adopted all of their recommendations accordingly.

### Management’s Report on Risk Management

Based on the risk management mechanism and internal audit review activities mentioned in the aforementioned paragraphs, the management of the Group had reported to the Board that the Group had maintained an effective risk management mechanism and internal control system during the year ended 31 December 2017.

### Inside Information

The Group has adopted and implemented its own disclosure policy aiming to provide a general guide to the directors and senior management of the Company in handling of confidential information and/or monitoring of information disclosure pursuant to applicable laws and regulations in compliance with the Listing Rules and Securities and Futures Ordinance (“SFO”).

## Corporate Governance Report (Continued)

The disclosure policy provides the procedures and internal controls for the handling and dissemination of inside information by publication of the announcement to the websites of the Stock Exchange and the Company on a timely basis to enable the public, namely shareholders, institutional investors, potential investors and other stakeholders of the Company to access the latest information of the Group, unless such information fall within the safe harbours with the SFO. The management has notified all employees to comply with the disclosure policy. Briefing and training on the implementation of the policy have been provided to Directors, officers and senior management of the Group. The Board emphasizes that only the authorised representatives registered in the Stock Exchange are authorised to speak on behalf of the Company.

### **Delegation by the Board**

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association).

With the establishment of the audit committee, remuneration committee and nomination committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

### **Non-Competition Undertaking from Controlling Shareholders**

The controlling shareholder (as defined in the GEM Listing Rules) of the Company gave a non-competition undertaking in favour of the Company and confirm that they and their associates have not breached the terms of the undertaking contained in the Non-competition Deed during the Review Period.

The Board comprising all the independent non-executive Directors, based on the written confirmation provided by the controlling shareholder, is of the view that the controlling shareholder has been in compliance with the non-competition undertaking in favour of the Company for the Review Period.

## Corporate Governance Report (Continued)

### Company Secretary

The Company appointed Mr. Ng Chit Sing (“Mr. Ng”), an external service provider, as its company secretary. Mr. Leung Chu Ho, financial controller, is the primary contact person to Mr. Ng at the Company in respect of any compliance and company secretarial matters of the Company.

The biographical details of Mr. Ng are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report. During the Year, Mr. Ng, undertook over 15 hours’ professional training to update his skill and knowledge in compliance with the CG Code.

### Changes in Constitutional Documents

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the websites of the Company and the Stock Exchange its Memorandum and Articles of Association. During the Year, the shareholder has passed a special resolution on 29 September 2017 approving the adoption of amended and restated Memorandum and Articles of Association of the Company. Save as the aforesaid, there has been no changes in the constitutional documents of the Company. The constitutional documents are available on websites of the Company and the Stock Exchange.

### Shareholders’ Rights

#### The Way by Which Shareholders Can Convene Extraordinary General Meeting (“EGM”)/Put Forward Proposal

According to Article 58 of the Articles of Association of the Company, any one or more members 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 of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(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.

Article 85 of the Articles of Association provides that no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

## Corporate Governance Report (Continued)

Accordingly, if a member of the Company wishes to propose a person other than a Director for election as a Director at the Company's general meeting ("Proposal"), he/she should lodge a written notice setting out the Proposal and his/her contact details to the head office and principal place of business of the Company.

The relevant procedures are set out in the circular to the shareholders which is sent together with this annual report and the Company's website at [www.takbogroup.com](http://www.takbogroup.com).

### **The Procedures for Sending Enquiries to the Board**

Shareholders may send their enquiries and concerns in writing to the Board/company secretary by addressing them to the Company at our principal place of business in Hong Kong or by email through the Company's website.

### **Communication with Shareholders and Investors**

The Company endeavors to maintain effective communications with the shareholders and potential investors of the Company.

Save as mentioned under the sub-heading "The Procedures for Sending Enquiries to the Board" above, in order to provide more relevant information to our shareholders, the Company has published all corporate information about the Group on its website at [www.takbogroup.com](http://www.takbogroup.com). It is a channel of the Company to communicate with the shareholders and potential investors with our latest corporate development. All our corporate communications, such as statutory announcement, circular and financial reports are available on the website for easy access by the shareholders and potential investors. In addition, the Company meets its shareholders at the annual general meeting so as to promote the development of the Company through mutual and efficient communications.

The forthcoming annual general meeting of the Company is scheduled to be held on 11 May 2018. At the annual general meeting, the chairman of the Board as well as chairmen of the nomination committee, remuneration committee and audit committee or, in their absence, other members of the respective committees shall attend to answer questions from shareholders at the annual general meeting. The representatives of the external auditors shall also present and available to answer questions at the meeting.

The notice of annual general meeting and the necessary information on issues to be considered in the annual general meeting will be set out in the circular to be dispatched to the shareholders of the Company in due course.

# Environmental, Social and Governance Report

## About This Report

Takbo Group Holdings Limited (the “Company”), together with its subsidiaries (the “Group”), is pleased to present our first Environmental, Social and Governance Report (the “Report”) to provide an overview of the Group’s management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects. This Report is prepared by the Group with the professional assistance of APAC Compliance Consultancy and Internal Control Services Limited.

## Preparation Basis and Scope

This Report is prepared in accordance with Appendix 20 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) — “Environmental, Social and Governance Reporting Guide” and has complied with “comply or explain” provision in the GEM Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its operating activities — the design, development, manufacture and sale of beauty products; and the design, development and sale of beauty bags in the People’s Republic of China (“PRC”) and Hong Kong (“HK”). With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record relevant data as well as implement and monitor measures. This Report shall be published both in Chinese and English on the website of Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

## Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2017 to 31 December 2017.

## Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by [Enquiries@TakboGroup.com](mailto:Enquiries@TakboGroup.com).



## Environmental, Social and Governance Report (Continued)

### Introduction

The Group is principally engaged in (i) the design, development, manufacture and sale of beauty products; and (ii) the design, development and sale of beauty bags. We are dedicated to creating from concepts to innovative and multifunctional designs that worth for values for our customers' needs. We strive to provide the highest quality products to our customers through design, marketing and manufacturing solutions and from design, development to delivery. We believe that we are a well-established beauty products manufacturer in the PRC as we have successfully operated such business for approximately 14 years.

The Group is committed to responsible operation and value creation for stakeholders and community by integrating environmental and social factors into management considerations. Sustainability strategy is based on the compliance with the legal requirements in the area in which we operate and the opinions from stakeholders. Sustainability is crucial for the Group's growth in order to achieve business excellence and enhance capabilities for long-term competitiveness. The Group has established and implemented various policies to manage and monitor our operation risks relating to the environment and society. Details of the management approaches to sustainable development of different areas are illustrated in this Report.

### STAKEHOLDER ENGAGEMENT

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

Stakeholders	Expectations	Engagement channels	Measures
<b>Government</b>	<ul style="list-style-type: none"> <li>— Comply with the laws</li> <li>— Proper tax payment</li> <li>— Promote regional economic development and employment</li> </ul>	<ul style="list-style-type: none"> <li>— On-site inspections and checks</li> <li>— Research and discussion through work conferences, work reports preparation and submission for approval</li> <li>— Annual reports</li> <li>— Website</li> </ul>	<ul style="list-style-type: none"> <li>— Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation (e.g. accepted 1-2 on-site inspections throughout the year), and actively undertook social responsibilities</li> </ul>
<b>Shareholders and Investors</b>	<ul style="list-style-type: none"> <li>— Low risk</li> <li>— Return on the investment</li> <li>— Information disclosure and transparency</li> <li>— Protection of interests and fair treatment of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>— Annual general meeting and other shareholder meetings</li> <li>— Annual report, announcements</li> </ul>	<ul style="list-style-type: none"> <li>— Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/circulars and three periodic reports in total in the year. Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing once. Disclosed company contact details on website and in reports and ensured all communication channels are available and effective</li> </ul>

## Environmental, Social and Governance Report (Continued)

Stakeholders	Expectations	Engagement channels	Measures
<b>Employees</b>	<ul style="list-style-type: none"> <li>— Safeguard the rights and interests of employees</li> <li>— Working environment</li> <li>— Career development opportunities</li> <li>— Self-actualisation</li> <li>— Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>— Trainings, seminars, briefing sessions</li> <li>— Cultural and sport activities</li> <li>— Newsletters</li> <li>— Intranet and emails</li> </ul>	<ul style="list-style-type: none"> <li>— Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labor unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organising employee activities</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>— Safe and high-quality products</li> <li>— Stable relationship</li> <li>— Information transparency</li> <li>— Integrity</li> <li>— Business ethics</li> </ul>	<ul style="list-style-type: none"> <li>— Website, brochures</li> <li>— Email and customer service hotline</li> <li>— Regular meeting</li> </ul>	<ul style="list-style-type: none"> <li>— Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements</li> </ul>
<b>Suppliers/ Partners</b>	<ul style="list-style-type: none"> <li>— Long-term partnership</li> <li>— Honest cooperation</li> <li>— Fair, open</li> <li>— Information resources sharing</li> <li>— Risk reduction</li> </ul>	<ul style="list-style-type: none"> <li>— Business meetings, supplier conferences, phone calls, interviews</li> <li>— Regular meeting</li> <li>— Review and assessment</li> <li>— Tendering process</li> </ul>	<ul style="list-style-type: none"> <li>— Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors</li> </ul>

### Environmental Aspects

As a manufacturer, we recognise that we have an obligation to reduce the impact of our operations on the environment and be accountable for the resources and materials that we used in our daily operations. As our Group continues to develop, we are committed to continuously improve the environmental sustainability of our business, ensuring that environmental considerations remain one of the top priorities in our daily business operations and that we fulfill our obligations to both the environment and community.

### Emissions

The Group is subject to various PRC national and local environmental laws and regulations related to the operations, including the “Environmental Protection Law of the People’s Republic of China”. During the reporting period, the Group had no material non-compliance regarding environmental issues.

### Air Pollutant Emission

Emission control is essential to mitigate the impact to the environment and to protect the health of employees. Our air pollutants are mainly generated from the vehicles. The Group has taken initiatives to formulate plans for the reduction of air pollutants. For example, regular monthly or quarterly vehicle maintenance is carried out, including replacement of any wear components and generator cleaning. Vehicle usage is reduced by recording the travelling distance, route planning and choosing closer suppliers.

## Environmental, Social and Governance Report (Continued)

Air pollutants emitted from the beauty products production process were collected and treated by activated carbon and carbon fiber absorption to reduce the air pollutants emission to the atmosphere.

The air pollutant emission during the reporting period is as follows:

Air Pollutants	Unit	PRC	HK	Total
Nitrogen oxides (NO <sub>x</sub> )	kg	16.65	0.90	<b>17.55</b>
Sulfur dioxide (SO <sub>2</sub> )	kg	0.63	0.02	<b>0.65</b>
Particular matter (PM)	kg	1.26	0.07	<b>1.33</b>

### Greenhouse Gas (“GHG”) Emission

Climate change has become a major challenge to the world. The Group manages the carbon footprint by minimising the energy consumption and water consumption as these activities cause significant emission of GHG. Production activity is the main sources of GHG emitted by the Group. Our Group is taking action to minimise the GHG emissions in our operations. We have adopted energy saving initiatives that are mentioned in the section “Use of Resources”. During the reporting period, the emission of greenhouse gas is as follows:

GHG Emission <sup>1</sup>	Unit	PRC	HK	Total
Scope 1 <sup>2</sup>	tonnes of CO <sub>2</sub> -e	18.35	3.79	<b>22.14</b>
Scope 2 <sup>3</sup>	tonnes of CO <sub>2</sub> -e	481.25	26.79	<b>508.04</b>
Total	tonnes of CO <sub>2</sub> -e	499.60	30.58	<b>530.18</b>
Intensity	PRC: tonnes of CO <sub>2</sub> -e/tonnes of production HK: tonnes of CO <sub>2</sub> -e/m <sup>2</sup>	0.36	0.09	

### Hazardous and Non-hazardous Wastes

Hazardous wastes produced during our production process are handled in accordance with the relevant PRC laws and regulations. The Group has commissioned a qualified contractor to handle or dispose of certain toxic liquid and solid waste, such as emulsions, mineral oils and waste lamps for the Cosbe Facility in the PRC. These wastes are separately stored and handled for record. During the reporting period, 0.21 tonnes of hazardous wastes were generated from the Cosbe Facility with an intensity of 0.00015 tonnes per tonnes of production. These hazardous wastes were properly handled by the qualified contractor.

<sup>1</sup> The calculation of the greenhouse gas emission is based on the “Corporate Accounting and Reporting Standard” from greenhouse gas protocol.

<sup>2</sup> Scope 1: Direct emission from sources that are owned or controlled by the Group.

<sup>3</sup> Scope 2: Indirect emissions from purchased electricity consumed by the Group.

## Environmental, Social and Governance Report (Continued)

Non-hazardous wastes generated from the Group includes paper, plastic, metal and food wastes. The Group has implemented various measures to reduce wastes in the daily operation, which include:

- Double-sided printing of paper is recommended.
- Our employees are discouraged from using disposable tableware and shopping bags are provided for them when eating out.

As this is the first year that we published this Report, we did not record the non-hazardous wastes produced in 2017. However, in order to improve the disclosure requirement, we will take initiative to record relevant data in the coming year. The Group has also put effort in recycling different waste materials. The amount of the waste recycled during the reporting period is as follows:

Waste recycled	Unit	PRC	HK	Total
Plastic	kg	155	—	<b>155</b>
Metal	kg	350	—	<b>350</b>
Paper	kg	—	787	<b>787</b>

### Wastewater

The Group has obtained the pollutant emission permit for wastewater to ensure all wastewater generated during our production process can be safely handled according to the national safety standards before external discharge. We have commissioned an experienced wastewater treatment company to formulate a wastewater treatment process. We have a wastewater treatment facility in our Cosbe Facility which we expanded during the year to treat more wastewater. Suppliers also need to provide safety certifications for raw materials, hence, this can prevent the hazardous wastewater from being produced during our production process. During the reporting period, 340m<sup>3</sup> of wastewater was treated and discharged according to the national safety standards.

## Environmental, Social and Governance Report (Continued)

### Use of Resources

The Group has adopted a set of guidelines to improve the efficient use of energy, water and other materials.

#### Energy

The Group considers environmental protection as an essential component of a sustainable and responsible business. The Group aims to promote resource saving and implement suitable energy saving measures in order to improve the energy saving performance. We are also exploring energy saving and green management measures for our facilities, and strive to reduce resource consumption as much as possible. For example, we are switching to use the energy-efficient lights and grade 1 air-conditioners. During the reporting period, the energy consumptions are as follows:

Energy	Unit	PRC	HK	Total
Purchased electricity	kWh in '000s	715.58	49.61	<b>765.19</b>
Petrol	kWh in '000s	74.78	12.44	<b>87.22</b>
Total energy consumption	kWh in '000s	790.36	62.05	<b>852.41</b>
Intensity	PRC: kWh in '000s/tonnes of production HK: kWh in '000s/m <sup>2</sup>	0.58	0.18	

#### Water

Water is also another important resource used for the daily operation. For saving the use of water, water used for cleaning purpose is recycled for the washing to control dust level in the Cosbe Facility in the PRC. In HK, the water supply service in the office is provided by the building management. In this case, water consumption data is not available. However, we raise the awareness of employees about water saving through different channels. The water consumption during the reporting period is as follow:

Water	Unit	PRC	HK	Total
Water consumption	m <sup>3</sup>	11,336	n/a	<b>11,336</b>
Intensity	PRC: m <sup>3</sup> /tonnes of production	8.28	n/a	

## Environmental, Social and Governance Report (Continued)

### Packaging Materials

The major packaging materials used in our manufacture business in the PRC are paper, metal and plastic. The consumption of those materials is summarised below.

Packaging materials	Unit	PRC	HK	Total
Paper	tonnes	484.60	—	<b>484.60</b>
Plastic	tonnes	76.30	—	<b>76.30</b>
Metal	tonnes	304.10	—	<b>304.10</b>
Intensity	PRC: tonnes/tonnes of production	0.21	—	

### The Environment and Natural Resources

As a manufacturing company, we recognise our impact on the environment in our daily operations. To minimise the significant impact on the environment and natural resources, we have incorporated energy saving, emissions reduction and environmental protection into the development strategy of our Group. We put water saving, electricity saving, energy saving and emissions reduction as the main focus and have set up related monitoring policies and control measures. For example, raw materials consumption in the production process can be greatly reduced directly and indirectly through strengthening scientific management, better product design and fostering technological improvement. With the efficient use of raw materials, not only can the waste be reduced to relieve the burden on the environment, but also the economic benefit can be maximised.

### Social Aspects

#### Employment and Labour Practices

##### Employment

The Group believes people are important assets and competent staff is the foundation for success and development of the Group. Policies are in place to stipulate key human resources management practices in recruitment, promotion, resignation, working hours, equal opportunities and compensation benefits. The principle of equal opportunities is applied in the recruitment and promotion policies. The Group promotes fair competition. All employees are hired based on the merits and treated equally, regardless of their nationality, race, gender, age, religion and marital status, etc.

The Group also advocates harmonious and work-life balance culture through organizing a diversified choice of activities for employees. We organised annual dinner, annual travel and employee gatherings during the reporting period. Those activities can enable employees to relax and enhance the communications among employees.

The adoption of these human resources policies and procedures also ensures the Group's compliance with the relevant labour laws and regulations where it operates, including "Employment Ordinance" in HK and "Labour Law of the People's Republic of China". During the reporting period, there was no non-compliance related to applicable employment laws and regulations.

## Environmental, Social and Governance Report (Continued)

### Health and Safety

The Group is committed to providing a healthy and safe workplace for all its employees. We take work safety seriously in our Cosbe Facility and have established measures to promote work safety and to ensure compliance with applicable laws and regulations in the PRC. In 2017, no concluded cases regarding health and safety brought against the issuer or its employees were noted.

We provide our employees with work safety trainings, including the safety operation of production machines and equipment and procedures associated with the dangerous chemicals, to promote the importance of the awareness of work safety among our employees and ensure all our employees are familiar with the applicable laws, policies and the necessary procedures to be followed in order to prevent work safety hazard.

We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including chemicals handling and storage, fire safety, electricity safety, work-related injuries and emergency and evacuation procedures. We have installed appropriate fire safety equipment.

The members of the Environmental, Health and Safety (“EHS”) committee carry out regular inspection and evaluation on the safety measures so as to continuously improve the working conditions and monitor the effectiveness of safety related controls.

### Development and Training

The Group has implemented “Training Management System” in order to establish and improve the training system, encourage the employees to participate in the training programs, and continuously improve the professionalism and enhance the on-the-job skills of employees. The Group prepares the annual training plan based on the job performance of employees and operation needs. The Group provides diversified on-the-job trainings to employees, particularly safety and quality control trainings, with the aim to maintain the safety in the working environment and the quality of products. Trainings at all levels are available to meet the needs of respective positions as below.

1. **Orientation trainings** — New employees will receive orientation trainings related to corporate culture.
2. **Job skills trainings** — All new and internally transferred employees will receive trainings related to department functions, job responsibilities and job skills within the first week of work to ensure they have a complete understanding of the job.
3. **External trainings** — Professional trainings for certain job positions based on the operation needs of the Group.
4. **Trainings and assessment for employees in special position** — Certification trainings for specialists. The Group invites related government departments and institutions to deliver trainings to ensure employees can perform duties with relevant qualifications.

## Environmental, Social and Governance Report (Continued)

In 2017, the detailed breakdown of the percentage of employees trained and the average training hours completed per employee by gender and employee category is as follows:

Training	Average training hours (hours/employee)	Percentage of employee trained (%)
<b>By gender</b>		
— Male	19.58	73.68
— Female	35.92	76.32
<b>By employment category</b>		
— Senior management	10.33	38.89
— Middle management	24.00	57.14
— General	37.12	89.33

### Labour Standards

The Group respects the human rights of employees, and is strongly against the employment of child labour and forced labour. The Group strictly complies with the relevant laws and regulations, such as “Employment Ordinance” in HK and “Labour Law of the People’s Republic of China”. According to the “Labour and Employment Management Procedures” of the Group, person under 16 is not allowed to work in the Group and there is zero tolerance to child labour and forced labour. Our suppliers are expected to follow the same standard of labour practices when working with us. During the reporting period, the Group did not find any cases related to child labour or forced labour.

### Operating Practices

#### Supply Chain Management

The Group relies on suppliers to provide production materials. We are fully aware of the potential environmental and social risks associated with our supply chain and are committed to reducing such risks in the collaboration with our suppliers. For example, we carefully select the suppliers based on a list of criteria such as ICTI CARE compliance fulfilment, environmental certification, product quality, timely delivery, cooperation and price in accordance with the Group’s internal policies including “Procurement and Supplier Management Procedures” and “Suppliers and Sub-Contractors Social Responsibility Management Procedures”. The Group maintains a long-term relationship with suppliers based on the results from the annual assessment.

Every supplier needs to sign a letter of commitment on taking up social responsibility based on ICTI CARE requirement before starting cooperation with us. The Group irregularly checks the ICTI CARE compliance with the suppliers and provides related trainings, including EHS training to the suppliers in order to prevent the suppliers from serious violation of relevant laws and regulations. If violation is observed from suppliers, the Group will suspend the cooperation.



## Environmental, Social and Governance Report (Continued)

### Product Responsibility

As a well-established beauty products manufacturer in the PRC, achieving and maintaining a high-quality standard of products is the utmost importance for sustainable growth of the Group. The Group is in strict compliance with related laws and regulations, including “Product Quality Law of the People’s Republic of China”. During the reporting period, the Group did not discover any significant risk exposure in relation to the product responsibility.

### Quality Management

In order to enhance the quality of products and services provided by the Group, the Group has set up internal policies — “Product Inspection Procedures”, “Products Recall Guidelines” and other related procedures in accordance with the requirement of ISO 9001:2008 — Quality Management System. Inspections are performed in different stages of the production line before the products are packed for delivery to ensure the quality of products. Procedures for control of nonconforming products shall apply to protect customers against safety risks for any products which are inspected to be unqualified. If products are recalled for safety and health reasons unfortunately, product recalling procedures and analysis shall be carried out to reduce similar incidents. During the reporting period, none of our products sold was subject to any recalls for safety and health reasons.

The Group’s department of commerce is responsible for dealing with the complaints from customers. Prompt response will be made and the problem will be tackled to prevent similar complaints from happening. During the year, no complaints related to the quality of products were received by the Group. Regular customer satisfaction survey is carried out biannually for the continuous improvement of quality of products and services.

### Intellectual Property Protection

Intellectual property is an area of substantial importance in the environment of the Group. The Group has implemented “Intellectual Property Policy and Procedure” to protect the manufacture and sale of beauty products under the trademarks of its own brands. In the event an infringement of intellectual property rights owned by the Group is being found, the Group shall seek legal advice to protect the interest of the Group. For any new trademarks or any new brands to be licensed, the Group shall take all appropriate action to register and protect trademarks of its own brands in the jurisdictions in which products under these brands are sold.

### Customer Information Protection

The Group respects customer data privacy and is committed to preventing customer data leakage or loss. According to the Group’s “Customers Property Control Procedures”, collected customer personal data and property are accessible only by authorised personnel and handled with care. The Group complies with relevant customer information protection laws and regulations. During the year, no severe laws violation in this aspect was found to have posed significant impact on the Group.

## Environmental, Social and Governance Report (Continued)

### Anti-Corruption

The Group is committed to the highest possible standards of openness, honesty and accountability in all the affairs. The Group is determined to maintain a culture of honesty and opposition to fraud and corruption. Based on this commitment, the Group implements related policies and procedures including “Anti-Fraud and Whistle-Blowing Policy” and “Anti-Bribery and Anti-Corruption Code of Conduct”. These policies and procedures outline the principles to which we are committed to preventing, reporting and managing fraud, corruption and bribery. These principles are well conveyed to our employees through daily communication, trainings and workshops. During the reporting period, 93% of our staff received trainings on anti-corruption. Our customers, suppliers and contractors are expected to follow the same policy when working with us.

The Group has established a whistle-blowing mechanism that allows employees and the public to report suspicious cases and concerns in a confidential manner. Investigation of alleged fraud or fraudulent behaviour may be carried out internally or may be referred to the appropriate regulatory authorities. Reports shall be produced subsequently and submitted to the management for further action. If the allegation is determined to be materially true, the Group reserves the right to take all appropriate actions including terminating the employment of any perpetrators, reporting the fraud or fraudulent activities to appropriate government authorities and pursuing legal actions, both civil and criminal, against the perpetrators.

The Group has been in strict compliance with the related local laws and regulations in PRC and HK including “Prevention of Bribery Ordinance” and “Criminal Law of the People’s Republic of China”. During the reporting period, there was no legal case regarding corrupt practices brought against the Group or its employees.

### Community

#### Community Investment

The Group is committed to supporting and contributing to the society by implementing related policies and measures to understand the needs of the community. Contribution to the community and maintaining a harmonious relationship with the stakeholders in the region of operation are crucial for the sustainable development of the Group.

The Group is willing to participate in activities organised by the community in order to enhance the communication among different stakeholders. During the reporting period, we continued to support many charitable events, including the donation of our cosmetic products which worth about HK\$4,000 to the Hong Kong Young Women’s Christian Association.

# Independent Auditor's Report



羅兵咸永道

## To the Shareholders of Takbo Group Holdings Limited

*(incorporated in Cayman Islands with limited liability)*

### Opinion

#### What we have audited

The consolidated financial statements of Takbo Group Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 62 to 123, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

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.

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## Independent Auditor's Report (Continued)

### 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.

Key audit matter identified in our audit is the impairment assessment of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment assessment of trade receivables</b></p> <p>Refer to note 19 to the consolidated financial statements</p> <p>The Group had gross trade receivables of approximately HK\$18.9 million that were past due as at 31 December 2017 (2016: HK\$5.4 million) and trade receivables of HK\$3.0 million (2016: nil) were impaired and provided for as at year end.</p> <p>In general, the credit terms granted by the Group ranged between 30 to 90 days (2016: 14 to 90 days). Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of balances outstanding, credit profile of the customers and on-going trading relationships with the relevant customers.</p> <p>We focused on this area due to the significant management judgments used to evaluate the recoverability of trade receivables as at 31 December 2017.</p>	<p>Our procedures in relation to management's impairment assessment of the trade receivables past due as at 31 December 2017 included evaluation of management's assessment in respect of the recoverability of the past due trade receivables.</p> <p>Our audit procedures focused on the following:</p> <ul style="list-style-type: none"> <li>• Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk;</li> <li>• Checking, on a sample basis, the aging profile of the trade receivables as at 31 December 2017 to the underlying financial records and post year-end settlements to bank receipts;</li> <li>• Understanding the status of each of the material trade receivables past due as at year end, the Group's on-going business relationships with the relevant customers and past settlement history of the customers through discussion with management; and</li> <li>• Corroborating explanations from management with supporting evidence, such as correspondence with customers, test on subsequent settlement, public search of the customers' profiles as we evaluate management's judgments.</li> </ul> <p>We found that the management judgments used to assess the recoverability of the trade receivables past due as at year end to be supported by available evidence.</p>

## Independent Auditor's Report (Continued)

### **Other Information**

The directors of the Company 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 and Audit Committee for the Consolidated Financial Statements**

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

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

The audit committee are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Independent Auditor's Report (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 Leung Chi Hang, Benson.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 20 March 2018

## Consolidated Income Statement

For the Year ended 31 December 2017

	<i>Note</i>	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
Revenue	5	179,369	165,098
Cost of sales	8	(113,422)	(104,698)
<b>Gross profit</b>		<b>65,947</b>	60,400
Other income	6	471	234
Other (losses)/gains, net	7	(2,455)	1,191
Administrative expenses	8	(42,033)	(29,475)
Selling expenses	8	(12,300)	(15,077)
<b>Operating profit</b>		<b>9,630</b>	17,273
Finance income	11	99	68
Finance costs	11	(27)	(211)
Finance income/(costs), net	11	72	(143)
<b>Profit before income tax</b>		<b>9,702</b>	17,130
Income tax expense	12	(4,232)	(3,470)
<b>Profit for the year attributable to owners of the Company</b>		<b>5,470</b>	13,660
Earnings per share (in HK cents)	13	1.7	4.6

The above consolidated income statement should be read in conjunction with the accompanying notes.



## Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Profit for the year	5,470	13,660
Other comprehensive income/(loss): <i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operation	985	(1,299)
Other comprehensive income/(loss) for the year	985	(1,299)
Total comprehensive income for the year	6,455	12,361
Total comprehensive income attributable to owners of the Company	6,455	12,361

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated Balance Sheet

As at 31 December 2017

	<i>Note</i>	<b>2017</b> HK\$'000	2016 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	12,232	6,046
Intangible asset	16	516	164
Prepayments	20	4,791	—
Deferred income tax assets	27	1,658	696
		<b>19,197</b>	6,906
<b>Current assets</b>			
Inventories	18	8,809	6,273
Trade receivables	19	23,971	12,546
Prepayments, deposits and other receivables	20	4,262	7,509
Amounts due from related parties	32	370	73,671
Financial assets at fair value through profit or loss	28	1,320	—
Cash and cash equivalents	21	96,412	41,054
		<b>135,144</b>	141,053
<b>Total assets</b>		<b>154,341</b>	147,959

## Consolidated Balance Sheet (Continued)

As at 31 December 2017

	<i>Note</i>	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	22	4,000	—
Share premium	22	56,188	—
Other reserves	23	3,718	2,661
Retained earnings		75,096	78,638
<b>Total equity</b>		<b>139,002</b>	81,299
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision	25	393	403
<b>Current liabilities</b>			
Trade payables	24	7,132	4,741
Accruals, provisions and other payables	25	4,844	3,426
Amounts due to related parties	32	535	50,798
Current income tax liabilities		2,435	332
Bank borrowings	26	—	6,960
		<b>14,946</b>	66,257
<b>Total liabilities</b>		<b>15,339</b>	66,660
<b>Total equity and liabilities</b>		<b>154,341</b>	147,959

The consolidated financial statements on pages 62 to 123 were approved by the Board of Directors on 20 March 2018 and were signed on its behalf.

**Or Naam**  
*Director*

**Chan Hoi Yan, Polly**  
*Director*

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

For the Year ended 31 December 2017

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital and other	Statutory	Exchange reserve HK\$'000	Retained earnings HK\$'000	
			reserve (Note 23(a)) HK\$'000	reserve (Note 23(b)) HK\$'000			
<b>Balances at 31 December 2015 and 1 January 2016</b>	—	—	46	305	3,442	65,145	68,938
Profit for the year	—	—	—	—	—	13,660	13,660
Other comprehensive loss	—	—	—	—	(1,299)	—	(1,299)
<b>Total comprehensive income for the year</b>	—	—	—	—	(1,299)	13,660	12,361
<b>Transactions with owners in their capacity as owners</b>							
Transfer to reserve	—	—	—	167	—	(167)	—
	—	—	—	167	—	(167)	—
<b>Balances at 31 December 2016 and 1 January 2017</b>	—	—	46	472	2,143	78,638	81,299
Profit for the year	—	—	—	—	—	5,470	5,470
Other comprehensive income	—	—	—	—	985	—	985
<b>Total comprehensive income for the year</b>	—	—	—	—	985	5,470	6,455
<b>Transactions with owners in their capacity as owners</b>							
Issuance of share at the date of incorporation (Note 1.2(e))	—	—	—	—	—	—	—
Issuance of shares pursuant to the Reorganisation (Note 1.2(f) and (g))	—	—	—	—	—	—	—
Dividend declared and settled (Note 29)	—	—	—	—	—	(8,940)	(8,940)
Issuance of shares upon capitalisation issues (Note 1.2(i))	3,000	(3,000)	—	—	—	—	—
Share issues under share offer (Note 1.2(j))	1,000	68,000	—	—	—	—	69,000
Listing expenses charged to share premium (Note 1.2(j))	—	(8,812)	—	—	—	—	(8,812)
Transfer to reserve	—	—	—	72	—	(72)	—
	4,000	56,188	—	72	—	(9,012)	51,248
<b>Balances at 31 December 2017</b>	4,000	56,188	46	544	3,128	75,096	139,002

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows

For the Year ended 31 December 2017

	<i>Note</i>	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	2,416	24,407
Interest paid		(27)	(211)
Income tax paid		(3,054)	(3,415)
Net cash (used in)/generated from operating activities		(665)	20,781
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(11,294)	(2,280)
Purchase of intangible asset		(388)	—
Proceeds from disposal of property, plant and equipment	29	—	97
Interest received		99	68
Repayments received from related parties		15,146	—
Net cash generated from/(used in) investing activities		3,563	(2,115)
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		—	6,960
Repayment of bank borrowings		(6,720)	(3,762)
(Increase)/decrease in amounts with related parties		(1,702)	17,539
Proceeds from issuance of shares under share offer		69,000	—
Payment for listing expenses		(8,006)	(806)
Net cash generated from financing activities		52,572	19,931
<b>Net increase in cash and cash equivalents</b>		<b>55,470</b>	<b>38,597</b>
Cash and cash equivalents at the beginning of the financial year		41,054	3,026
Effect of exchange rate changes on cash and cash equivalents		(112)	(569)
Cash and cash equivalents at end of year		96,412	41,054
Non-cash financing activities	29		

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

## 1 General Information, Reorganisation and Basis of Presentation

### 1.1 General Information

Takbo Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 8 February 2017 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the design, development, manufacture and sale of beauty products, and the design, development and sale of beauty bags (the “Listing Business”).

The ultimate controlling parties of the Company are Mr. Or Naam, Ms. Chu Siu Fong (“Ms. Chu”) and Ms. Chan Hoi Yan Polly (“Ms. Chan”) (collectively, the “Controlling Shareholders”). The ultimate holding company of the Company is Classic Charm Investments Limited (“Classic Charm”).

The Company became listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 27 October 2017.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

The English names of the companies and auditors mentioned in this report represented the best efforts by the directors of the Company in translating their Chinese names as they may not have official English names.

### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the Listing Business was carried out by Takbo Limited (“Takbo”) and Cosbe Laboratory Inc. (collectively the “Operating Companies”). Before the completion of the Reorganisation, the Operating Companies were controlled by Mr. Or Naam, Ms. Chu and Ms. Chan (collectively, the “Controlling Shareholders”) who owned and controlled the Operating Companies throughout the years ended 31 December 2016 and 2017.

In preparation for Listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Listing”), the Group underwent the Reorganisation which principally involved the following steps.

- (a) On 17 October 2016, Classic Charm was incorporated in the British Virgin Islands (the “BVI”). On the date of its incorporation, 508, 95 and 397 shares in Classic Charm were allotted and issued to Mr. Or Naam, Ms. Chan and Ms. Chu for a cash consideration of United States dollars (“US\$”) 508, US\$95 and US\$397, respectively.
- (b) On 4 January 2017, Full Colour Developments Limited (“Full Colour”) was incorporated in the BVI and one share of US\$1.00 was allotted and issued to Alpha Business Global Limited (“Alpha Business”) in cash at par on 23 February 2017.

## Notes to the Consolidated Financial Statements (Continued)

### 1 General Information, Reorganisation and Basis of Presentation (Continued)

#### 1.2 Reorganisation (Continued)

- (c) On 10 January 2017, Alpha Business was incorporated in the BVI. On 23 February 2017, one share was allotted and issued to the Company for a cash consideration of US\$1.00.
- (d) On 30 August 2016, Dawning Beauty Limited (“Dawning Beauty”) was incorporated in the BVI. On 1 February 2017, one share of US\$1.00 was allotted and issued to Mr. Or Naam for cash at par and subsequently transferred to Alpha Business for cash at par on 27 February 2017.
- (e) On 8 February 2017, the Company was incorporated in the Cayman Islands. On the date of its incorporation, one nil-paid share was allotted and issued to Sharon Pierson and was subsequently transferred to Mr. Or Naam. On 1 March 2017, Mr. Or Naam transferred the share to Classic Charm at nil consideration.
- (f) On 25 September 2017, pursuant to a sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chu and the Company, Mr. Or Naam and Ms. Chu transferred their entire shareholding interests in Takbo to Full Colour for one share issued by the Company to Classic Charm credited as fully paid.
- (g) On 25 September 2017, pursuant to a sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chan and the Company, Mr. Or Naam and Ms. Chan transferred their entire shareholding interests in B&B (H.K.) Limited (“B&B”) to Dawning Beauty for one share issued by the Company to Classic Charm credited as fully paid.
- (h) On 29 September 2017, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 shares of HK\$0.01 each.
- (i) On 29 September 2017, the Company has capitalised an amount of HK\$2,999,999.97 standing to the credit of the share premium account by applying such sum in paying up in full at par 299,999,997 shares for allotment and issue to the shareholders whose names appear on the register of members of the Company in proportion to their existing shareholdings in the Company (the “Capitalisation Issue”).
- (j) In connection with the Listing, 100,000,000 shares of HK\$0.01 each were issued at the offer price of HK\$0.69 to public investors with gross proceeds of HK\$69,000,000. HK\$1,000,000 was credited to the share capital account and approximately HK\$59,188,000 (net of professional fee of approximately HK\$8,812,000) was credited to the share premium account.

After the completion of the Reorganisation, the Company becomes the holding company of the companies now comprising the Group.

## Notes to the Consolidated Financial Statements (Continued)

### 1 General Information, Reorganisation and Basis of Presentation (Continued)

#### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business has been conducted by the Operating Companies. Pursuant to the Reorganisation, the Business were transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the consolidated financial statements is prepared in accordance with HKFRS 10, Consolidated Financial Statements, issued by the HKICPA, using the carrying values of the Business under the Controlling Shareholders for all the years presented, or since the respective dates of incorporation/establishment of the subsidiaries within the Group, or since the date when the subsidiaries within the Group first came under the control of the Controlling Shareholders, whichever is later.

Intercompany transactions, balances and unrealised gains/losses on transactions between subsidiaries now comprising the Group are eliminated upon consolidation.

### 2 Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Takbo Group Holdings Limited and its subsidiaries.

#### 2.1 Basis of preparation

(i) **Compliance with HKFRS and HKCO**

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) **Historical cost convention**

The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through profit or loss.

(iii) **New and amended standards adopted by the Group**

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 7	Disclosure initiative

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 29.



## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.1 Basis of preparation (Continued)

##### (iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		<b>Effective for accounting year beginning on or after</b>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
Amendment to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
HKFRS 9 (Note a)	Financial Instruments	1 January 2018
HKFRS 15 (Note b)	Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15 (Note b)	Clarification to HKFRS 15	1 January 2018
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16 (Note c)	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 17	Insurance Contract	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.1 Basis of preparation (Continued)

##### (iv) New standards and interpretations not yet adopted (Continued)

*Note a:* HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group does not plan to early adopt this standard. Based on the Group's assessment, adoption of this standard is not expected to have a significant impact.

*Note b:* HKFRS 15 "Revenue from Contracts with Customers"—This new standard replaces the previous revenue standards: HKAS 18 "Revenue" and HKAS 11 "Construction Contracts", and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent considerations. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on the Group's assessment, it identified the key areas which might be accounted for differently under this new standard include but not limited to the timing of revenue recognition and the accounting treatment of contract costs, where the impact is not significant.

*Note c:* The Group is a lessee of certain property, plant and equipment, which are currently classified as operating leases. The Group's current accounting policy for such leases is to record the rental expenses in the Group's consolidated income statement with the related operating lease commitments being separately disclosed. The Group had operating lease commitments of approximately HK\$27,824,000 as at 31 December 2017 (2016: HK\$3,591,000).

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.1 Basis of preparation (Continued)

##### (iv) New standards and interpretations not yet adopted (Continued)

Note c: (Continued)

HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the consolidated balance sheet. Instead, all leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the Group's consolidated balance sheet. In the Group's consolidated income statement, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right of use of assets and interest expense arising from the financial liabilities will increase.

The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results and financial position but it is expected that right of use asset and lease liabilities of these lease commitments will be required to be recognised in the consolidated balance sheet. The new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

#### 2.2 Principles of consolidation

##### Subsidiaries

Subsidiaries are all entities (including structured entities) over which the has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

#### 2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

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

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of Takbo Group Holdings Limited has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the executive directors.

#### 2.5 Foreign currency translation

##### (a) 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.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.5 Foreign currency translation (Continued)

##### (c) Group companies

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (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 rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

#### 2.6 Property, plant and equipment

##### 2.6.1 Construction-in-progress

Construction-in-progress, representing buildings on which construction work has not been completed and machinery pending installation, is stated at historical cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

##### 2.6.2 Other property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.6 Property, plant and equipment (Continued)

##### 2.6.2 Other property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	20% or over the lease term, whichever is shorter
Plant and machinery	10% to 20%
Furniture and equipment	10% to 20%
Motor vehicles	10% to 25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net" in the consolidated statement of comprehensive income.

#### 2.7 Intangible asset

Intangible assets with definite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate costs of intangible assets over their estimated useful lives of 5 years.

#### 2.8 Impairment of non-financial assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.9 Investments and other financial assets

##### (a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and financial assets at fair values through profit or loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. See note 17 for details about each type of financial asset.

##### (i) *Financial assets at fair value through profit or loss*

The Group classifies financial assets at fair value through profit or loss if they are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

##### (ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of "trade receivables", "deposits and other receivables", "amounts due from related companies" and "cash and cash equivalents".

##### (b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest income from financial assets at fair value through profit or loss is included in the "other (losses)/gains, net". Interest on loans and receivables calculated using the effective interest method is recognised in the consolidated income statement as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### 2.11 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

##### Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in consolidated income statement.

Impairment testing of trade receivables is described in note 3.1 (c).

#### 2.12 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. 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.



## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within one year or less (or in the normal operating cycle of the business if longer), and therefore are all classified as current.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### 2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 2.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement as other income or finance costs.

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.

#### 2.16 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### 2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within the credit term. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

##### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.19 Current and deferred income tax (Continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### 2.20 Employee benefits

##### (a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulated sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

##### (b) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.20 Employee benefits (Continued)

##### (c) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the reporting date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses are recognised in full in the period in which they occur, outside the income statement, in the statement of comprehensive income.

##### (d) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of Significant Accounting Policies (Continued)

#### 2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

- (a) Sales of beauty products and beauty bags are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (b) Interest income is recognised on a time-proportion basis using the effective interest method.
- (c) Sample income is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

#### 2.23 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 31(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated income statement on a straight-line basis over the period of the lease.

#### 2.24 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the company's shareholders or directors, where appropriate.

### 3 Financial Risk Management

#### 3.1 Financial risk factors

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

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) Foreign exchange risk

The Group mainly operates in Hong Kong and the People's Republic of China ("PRC") and is exposed to foreign exchange risk, primarily with respect to US\$ and Chinese Renminbi ("RMB") denominated transactions arising from the sales of cosmetics products and bags to customers and purchases from suppliers.

Since HK\$ is pegged to US\$, the directors are of the opinion that the foreign exchange risk arising from US\$ of the Group is insignificant.

If RMB had strengthened/weakened by 5% with all other variables held constant as at the end of the year, the post-tax profit would have been approximately HK\$21,000 higher/lower (2016: HK\$278,000 lower/higher), mainly as a result of foreign exchange gains (2016: foreign exchange losses) on revaluation of RMB denominated cash and cash equivalents, trade and other receivables, financial assets at fair value through profit or loss, trade and other payables, amounts due from/to related parties and bank borrowings.

The table below summarises the assets and liabilities denominated in foreign currencies:

	2017 HK\$'000	2016 HK\$'000
<b>Assets</b>		
US\$	51,682	48,798
RMB	4,634	9,690
Others	47	52
	<b>56,363</b>	<b>58,540</b>
<b>Liabilities</b>		
US\$	(1,631)	—
RMB	(4,086)	(16,949)
	<b>(5,717)</b>	<b>(16,949)</b>

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain all of its borrowings in fixed rate instruments.

If the interest rate on cash at bank and interest-bearing bank deposits had been 100 basis points higher/lower than the prevailing interest rate, with all other variables held constant as at the end of the year, post-tax profit would have been approximately HK\$939,000 (2016: HK\$98,000) higher/lower.

##### (c) Credit risk

The credit risk of the Group mainly arises from bank balances and deposits, trade receivables, deposit and other receivables and amounts due from related parties. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks.

Majority of the Group's revenue is received from individual customers in relation to beauty products and bags sold and are transacted in cash or credit. The Group's trade receivables arise from sales of beauty products and bags to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 92.6% and 77.1% (2016: 69.7% and 47.1%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in Note 19. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The directors consider the Group's credit risk of these receivables to be low except for the impaired trade receivable disclosed in Note 19.

The directors are of the opinion that the credit risk of the amounts due from related parties is low due to the sound collection history of the receivables due from them. The extent of credit risk relating to the Group's trade and other receivables is disclosed in Note 19 and Note 20.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (d) Liquidity risk

Prudent liquidity risk management is controlled by maintaining sufficient cash and cash equivalents generated from the operating activities. At the end of the year, the Group held cash and cash equivalents and trade receivables, respectively, that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	On demand HK\$'000	Within 1 year HK\$'000	Between 1 to 2 years HK\$'000	Total	Carrying amount HK\$'000
				contractual cash flow HK\$'000	
<b>As at 31 December 2017</b>					
Trade payables	—	7,132	—	7,132	7,132
Accruals and other payables	—	1,556	—	1,556	1,556
Amounts due to related parties	—	535	—	535	535
	—	9,223	—	9,223	9,223
<b>As at 31 December 2016</b>					
Trade payables	—	4,741	—	4,741	4,741
Accruals and other payables	—	262	—	262	262
Amounts due to related parties	50,798	—	—	50,798	50,798
Bank borrowing	—	7,220	—	7,220	6,960
	50,798	12,223	—	63,021	62,761

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'bank borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents.



## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial Risk Management (Continued)

#### 3.2 Capital risk management (Continued)

The gearing ratios as at the end of the year were as follows:

	2017 HK\$'000	2016 HK\$'000
Total borrowings ( <i>Note 26</i> )	—	6,960
Less: cash and cash equivalents ( <i>Note 21</i> )	(96,412)	(41,054)
Net cash	(96,412)	(34,094)
Total equity	139,002	81,299
<b>Gearing ratio</b>	N/A	N/A

#### 3.3 Fair value estimation

##### (i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
<b>Level 3</b>			
<b>Recurring fair value measurements</b>			
Financial assets at fair value through profit or loss	28	1,320	

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements see (iii) below.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the year.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the year. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial Risk Management (Continued)

#### 3.3 Fair value estimation (Continued)

##### (ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

##### (iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year:

	2017 HK\$'000	2016 HK\$'000
Opening balance	—	4,438
Acquisitions	1,680	6,960
Disposals	(448)	(11,078)
Gains/(losses) recognised in other comprehensive income	88	(320)
Closing balance	1,320	—

As at the end of the year, instruments included in level 3 represent non-guaranteed interest bearing bank deposit issued by financial institution in the PRC which was classified as financial assets at fair value through profit of loss.

There were no transfers between levels 1, 2 and 3 during the year.

The key unobservable input is the interest rate of the deposit which is determined by the financial institution.

If the interest rate on interest-bearing bank deposits had been 100 basis points higher/lower than the prevailing interest rate, with all other variables held constant, post-tax profit would have been approximately HK\$10,000 higher/lower (2016: nil).

## Notes to the Consolidated Financial Statements (Continued)

### 4 Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### (a) Impairment of receivables

The Group makes provision for impairment in receivables based on an assessment of the recoverability of receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the receivables and impairment is recognised in the period in which such estimate has been changed.

#### (b) Current and deferred taxes

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax treatment is subject to judgment. If the Group considers it probable that these judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

Deferred income tax assets relating to certain deductible temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

## Notes to the Consolidated Financial Statements (Continued)

### 5 Revenue and Segment Information

#### (a) Revenue

The Group is principally engaged in the design, development, manufacture and sale of beauty products, and the design, development and sale of beauty bags. Revenue recognised during the year analysed by type of products is as follows:

	2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>		
Sales of beauty products	111,087	115,673
Sales of beauty bags	68,282	49,425
	<b>179,369</b>	<b>165,098</b>

#### (b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a product perspective and assess the performance of the operating segments based on a measure of gross profit for the purposes of allocating resources. No analysis of segment assets or segment liabilities is regularly provided to the chief operating decision-maker. These reports are prepared on the same basis as this consolidated financial statements.

The management has identified two operating segments based on the types of goods, namely (i) design, development, manufacture and sale of beauty products and (ii) design, development and sale of beauty bags.

## Notes to the Consolidated Financial Statements (Continued)

**5 Revenue and Segment Information (Continued)****(b) Segment information (Continued)**

The segment information provided to the executive directors are as follows:

	<b>Design, development, manufacture and sale of beauty products</b> HK\$'000	<b>Design, development and sale of beauty bags</b> HK\$'000	<b>Total</b> HK\$'000
<b>For the year ended 31 December 2017</b>			
Segment revenue from external customers	111,087	68,282	179,369
Cost of sales	(67,438)	(45,984)	(113,422)
Gross profit	43,649	22,298	65,947
Other income			471
Other losses, net			(2,455)
Administrative expenses			(42,033)
Selling expenses			(12,300)
Finance income, net			72
Profit before income tax			9,702
Income tax expense			(4,232)
Profit for the year			5,470
<b>For the year ended 31 December 2016</b>			
Segment revenue from external customers	115,673	49,425	165,098
Cost of sales	(73,761)	(30,937)	(104,698)
Gross profit	41,912	18,488	60,400
Other income			234
Other gains, net			1,191
Administrative expenses			(29,475)
Selling expenses			(15,077)
Finance costs, net			(143)
Profit before income tax			17,130
Income tax expense			(3,470)
Profit for the year			13,660

## Notes to the Consolidated Financial Statements (Continued)

### 5 Revenue and Segment Information (Continued)

#### (b) Segment information (Continued)

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

	2017 HK\$'000	2016 HK\$'000
Customer A (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	39,540	21,976
Customer B (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	35,531	32,929
Customer C (Design, development, manufacture and sale of beauty products)	N/A (a)	21,777
Customer D (Design, development, manufacture and sale of beauty products)	27,572	36,743
Customer E (Design, development and sale of beauty bags)	50,284	N/A (b)

Notes:

- (a) The corresponding customer did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2017.
- (b) The corresponding customer did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2016.

The Company is domiciled in the Cayman Islands. All non-current assets, other than deferred income tax assets of the Group as at the end of the year are located in Hong Kong amounted to approximately HK\$732,000 (2016: HK\$1,174,000) and the PRC amounted to approximately HK\$16,807,000 (2016: HK\$5,036,000).

## Notes to the Consolidated Financial Statements (Continued)

**5 Revenue and Segment Information (Continued)****(c) Group information**

Revenue from external customers by country, based on the location to which the goods were delivered:

	2017 HK\$'000	2016 HK\$'000
United States of America ("USA")	164,604	145,507
PRC	4,094	6,047
United Arab Emirates ("UAE")	5,530	3,377
United Kingdom	2,665	5,066
Other countries	2,476	5,101
	<b>179,369</b>	<b>165,098</b>

**6 Other Income**

	2017 HK\$'000	2016 HK\$'000
Sample income	471	234

**7 Other (Losses)/Gains, Net**

	2017 HK\$'000	2016 HK\$'000
Exchange (losses)/gains, net	(2,455)	1,103
Gain on disposal of property, plant and equipment	—	41
Others	—	47
	<b>(2,455)</b>	<b>1,191</b>

## Notes to the Consolidated Financial Statements (Continued)

**8 Expenses by Nature**

The following expenses are included in cost of sales, selling expenses and administrative expenses:

	2017 HK\$'000	2016 HK\$'000
Raw materials and consumables used	101,935	89,509
Changes in inventories of finished goods and work in progress	(3,334)	(2,352)
Amortisation of intangible asset ( <i>Note 16</i> )	65	68
Auditors' remuneration		
— Audit services	868	324
— Non-audit services	820	—
— Other	14	—
Employee benefits expenses, excluding benefits and interests of directors ( <i>Note 9</i> )	9,152	9,464
Directors' emoluments ( <i>Note 10</i> )	5,105	8,075
Manpower service costs	8,444	10,339
Depreciation of property, plant and equipment ( <i>Note 15</i> )	1,568	1,551
Inspection fees	2,194	2,103
Operating lease rentals in respect of leased premises	1,612	1,623
Advertising and marketing expenses	1,319	2,281
Travelling expenses and entertainment expense	1,603	3,200
Freight and transportation	7,355	9,190
Utility expenses	885	917
Legal and professional fees	1,162	543
Expenses incurred in connection with the Company's listing	15,653	2,417
Provision for impairment of trade receivables	2,797	—
Others	8,538	9,998
<b>Total cost of sales, selling expenses and administrative expenses</b>	<b>167,755</b>	<b>149,250</b>



## Notes to the Consolidated Financial Statements (Continued)

**9 Employee Benefit Expenses, Excluding Benefits and Interests of Directors**

	2017 HK\$'000	2016 HK\$'000
Salaries, bonuses and allowances	7,498	7,058
Pension costs-defined contribution plan ( <i>Note</i> )	978	872
Other employee benefits	676	1,534
	<b>9,152</b>	<b>9,464</b>

*Note:* The Group maintains two defined contribution pension schemes for its employees in Hong Kong and PRC under the Mandatory Provident Fund ("MPF") and Social Insurance respectively.

Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employee's relevant income, as defined in the Hong Kong Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's contributions are subject to a cap of HK\$1,500 per month. The contributions are fully and immediately vested for the employees. The assets of this scheme are held separately from those of the Group under independently administered funds.

Under the Social Insurance Scheme, the Group is required to make monthly contributions to the employees pursuant to the PRC laws and regulations by making contributions to the mandatory social funds which provide basic retirement, medical, work-related injury, maternity and unemployment benefits.

During the year, the aggregate amounts of the Group's contributions to the aforementioned pension scheme were approximately HK\$1,032,000 (2016: HK\$926,000).

## Notes to the Consolidated Financial Statements (Continued)

**10 Benefits and Interests of Directors****(a) Directors' emoluments**

For the year ended 31 December 2017

Name	Fee HK\$'000	Salaries HK\$'000	Other	Discretionary bonuses HK\$'000	Defined	Total HK\$'000
			allowances and benefits in kind HK\$'000		contribution pension costs HK\$'000	
<b>Executive directors</b>						
Mr. Or Naam, Chief Executive Officer (Note 1)	—	1,235	1,434	—	18	2,687
Ms. Chan (Note 2)	—	1,105	—	—	18	1,123
Mr. Or Huen (Note 2)	—	1,148	—	—	18	1,166
<b>Independent non-executive directors</b>						
Mr. Tan Chong Huat (Note 3)	43	—	—	—	—	43
Mr. Sung Chi Keung (Note 3)	43	—	—	—	—	43
Mr. Wong, Irving Holmes Weng Hoong (Note 3)	43	—	—	—	—	43
	<b>129</b>	<b>3,488</b>	<b>1,434</b>	<b>—</b>	<b>54</b>	<b>5,105</b>

For the year ended 31 December 2016

Name	Fee HK\$'000	Salaries HK\$'000	Other	Discretionary bonuses HK\$'000	Defined	Total HK\$'000
			allowances and benefits in kind HK\$'000		contribution pension costs HK\$'000	
<b>Executive directors</b>						
Mr. Or Naam, Chief Executive Officer	—	1,235	1,724	900	18	3,877
Ms. Chan	—	1,105	—	900	18	2,023
Mr. Or Huen	—	911	346	900	18	2,175
	<b>—</b>	<b>3,251</b>	<b>2,070</b>	<b>2,700</b>	<b>54</b>	<b>8,075</b>

## Notes to the Consolidated Financial Statements (Continued)

### 10 Benefits and Interests of Directors (Continued)

#### (a) Directors' emoluments (Continued)

*Note 1:* Mr. Or Naam was appointed as executive director of the Company on 8 February 2017.

*Note 2:* Ms. Chan and Mr. Or Huen were appointed as executive directors of the Company on 27 February 2017.

*Note 3:* Mr. Tan Chong Huat, Mr. Sung Chi Keung and Mr. Wong, Irving Holmes Weng Hoong were appointed as independent non-executive directors of the Company on 29 September 2017.

The appointment of above executive directors and independent non-executive directors with an effective date equivalent to the date of listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. During the year ended 31 December 2016, the independent non-executive directors had not yet been appointed and did not receive any remuneration.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2016: nil).

#### (b) Directors' retirement benefits and termination benefits

Save as disclosed in Note 10(a), the directors did not receive any other retirement benefits or termination benefits during the year (2016: nil).

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

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2016: nil).

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

As at the end of the year, there are no loans, quasi-loans and other dealing arrangements in favour of directors, their controlled bodies corporate and connected entities (2016: nil).

#### (e) Director's material interests in transactions, arrangements or contracts

Save as disclosed in Note 32, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: nil).

## Notes to the Consolidated Financial Statements (Continued)

**10 Benefits and Interests of Directors (Continued)****(f) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 3 (2016: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2016: 2) individuals during the year are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries, other allowances and benefits	1,310	1,948
Pension cost — defined contribution plan	38	17
	<b>1,348</b>	1,965

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
Nil to HK\$500,000	1	1
HK\$500,001 to HK\$1,000,000	1	—
HK\$1,500,000 to HK\$2,000,000	—	1

No directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or compensation for loss of office.

**11 Finance Income/(Costs), Net**

	2017 HK\$'000	2016 HK\$'000
<b>Finance income</b>		
Bank interest income	99	68
<b>Finance costs</b>		
Interest expense on bank borrowings	(27)	(195)
Others	—	(16)
	<b>(27)</b>	(211)
<b>Finance income/(costs), net</b>	<b>72</b>	(143)

## Notes to the Consolidated Financial Statements (Continued)

### 12 Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Corporate income tax on profits from subsidiaries operating in Mainland China have been calculated at 25% (2016: 25%) in accordance with the relevant People's Republic of China tax laws and regulations. No overseas profits tax has been calculated for subsidiaries of the Group that are incorporated in the BVI or the Cayman Islands as they are exempted from tax (2016: nil).

Income tax expense charged to the consolidated statement of comprehensive income represents:

	2017 HK\$'000	2016 HK\$'000
Current tax	5,113	3,668
Deferred income tax ( <i>Note 27</i> )	(912)	(198)
Under provision in prior year	31	—
	<b>4,232</b>	3,470

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before income tax	9,702	17,130
Tax calculated at a tax rate of 16.5% (2016: 16.5%)	1,601	2,826
Effect of different taxation rates in other country	2	209
Income not subject to tax	(16)	—
Expenses not deductible for tax purpose	2,614	435
Under provision in prior year	31	—
Income tax expense	<b>4,232</b>	3,470

## Notes to the Consolidated Financial Statements (Continued)

### 13 Earnings Per Share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

	2017	2016
Profit attributable to owners of the Company (in HK\$'000)	5,470	13,660
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	318,082,192	300,000,000
Total basic earnings per share attributable to the ordinary equity holders of the company (in HK cents)	1.7	4.6

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation as described in Note 1.2.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per shares has been determined on the assumption that the Reorganisation and Capitalisation Issue as described in Note 1.2(i) had been effective on 1 January 2016.

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential shares.

## Notes to the Consolidated Financial Statements (Continued)

**14 Subsidiaries**

The Group's principal subsidiaries at the end of the year are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Country and date of incorporation	Principal activities	Issued and paid up capital	Attributable effective equity interest to the Company as at 31 December	
				2017	2016
<b>Directly held</b>					
Alpha Business	British Virgin Islands 10 January 2017	Investment holding	US\$1	100%	Not applicable
<b>Indirectly held</b>					
Full Colour	British Virgin Islands 4 January 2017	Investment holding	US\$1	100%	Not applicable
Dawning Beauty	British Virgin Islands 30 August 2016	Investment holding	US\$1	100%	100%
Takbo	Hong Kong 20 December 1994	Design, development and sale of beauty products and beauty bags	HK\$10,000	100%	100%
B&B	Hong Kong 9 April 1999	Investment holding	HK\$2	100%	100%
Cosbe Laboratory Inc. (廣東一美化妝品有限公司)	PRC 28 June 2002	Design, development, manufacture and sale of beauty products	2017: RMB16,000,000 (2016: RMB12,000,000)	100%	100%

## Notes to the Consolidated Financial Statements (Continued)

**15 Property, Plant and Equipment**

	Leasehold improvement	Plant and machinery	Furniture and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2016						
Cost	3,521	11,928	9,714	3,842	—	29,005
Accumulated depreciation	(3,251)	(9,680)	(7,723)	(2,682)	—	(23,336)
Net book amount	270	2,248	1,991	1,160	—	5,669
Year ended 31 December 2016						
Opening net book amount	270	2,248	1,991	1,160	—	5,669
Exchange differences	—	(162)	(102)	(32)	—	(296)
Additions	337	650	795	85	413	2,280
Disposals	—	(49)	(7)	—	—	(56)
Depreciation charge (Note 8)	(287)	(377)	(498)	(389)	—	(1,551)
Closing net book amount	320	2,310	2,179	824	413	6,046
As at 31 December 2016						
Cost	3,858	11,269	10,158	3,167	413	28,865
Accumulated depreciation	(3,538)	(8,959)	(7,979)	(2,343)	—	(22,819)
Net book amount	320	2,310	2,179	824	413	6,046
Year ended 31 December 2017						
Opening net book amount	320	2,310	2,179	824	413	6,046
Exchange differences	—	41	55	11	457	564
Additions	128	106	244	—	6,712	7,190
Depreciation charge (Note 8)	(313)	(640)	(216)	(399)	—	(1,568)
Closing net book amount	135	1,817	2,262	436	7,582	12,232
As at 31 December 2017						
Cost	3,985	11,770	10,552	3,188	7,582	37,077
Accumulated depreciation	(3,850)	(9,953)	(8,290)	(2,752)	—	(24,845)
Net book amount	135	1,817	2,262	436	7,582	12,232

During the year, depreciation expenses of approximately HK\$642,000 (2016: HK\$631,000) has been charged in “cost of sales” and approximately HK\$926,000 (2016: HK\$920,000) have been charged in “administrative expenses”.

During the year, the Group has capitalised borrowing costs amounting to approximately HK\$30,000 (2016: nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 1.9% (2016: nil).



## Notes to the Consolidated Financial Statements (Continued)

**16 Intangible Asset**

	<b>Computer software</b> HK\$'000
As at 1 January 2016	
Cost	367
Accumulated amortisation	(116)
Net book amount	251
Year ended 31 December 2016	
Opening net book amount	251
Exchange differences	(19)
Amortisation ( <i>Note 8</i> )	(68)
Closing net book amount	164
As at 31 December 2016	
Cost	340
Accumulated amortisation	(176)
Net book amount	164
Year ended 31 December 2017	
Opening net book amount	164
Exchange differences	29
Additions	388
Amortisation ( <i>Note 8</i> )	(65)
Closing net book amount	516
As at 31 December 2017	
Cost	768
Accumulated amortisation	(252)
Net book amount	516

During the year, amortisation expenses of the Group's computer software of approximately HK\$65,000 (2016: HK\$68,000) have been charged to "administrative expenses".

## Notes to the Consolidated Financial Statements (Continued)

**17 Financial Instruments by Category**

	2017 HK\$'000	2016 HK\$'000
<b>Financial assets</b>		
Financial assets at fair value through profit or loss	1,320	—
<i>Loans and receivables</i>		
Trade receivables	23,971	12,546
Deposits and other receivables	147	138
Amounts due from related parties	370	73,671
Cash and cash equivalents	96,412	41,054
	120,900	127,409
	122,220	127,409
<b>Financial liabilities</b>		
<i>Other financial liabilities at amortised cost</i>		
Trade payables	7,132	4,741
Accruals and other payables	1,556	262
Amount due to related parties	535	50,798
Bank borrowings	—	6,960
	9,223	62,761

**18 Inventories**

	2017 HK\$'000	2016 HK\$'000
Raw materials	2,486	3,487
Work in progress	1,830	372
Finished goods	4,493	2,414
	8,809	6,273

The cost of inventories included in cost of sales during the year amounted to approximately HK\$98,601,000 (2016: HK\$87,157,000).

## Notes to the Consolidated Financial Statements (Continued)

**19 Trade Receivables**

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
Trade receivables	<b>26,967</b>	12,546
Less: provision for impairment	<b>(2,996)</b>	—
	<b>23,971</b>	12,546

Trade receivables represent income receivable from customers. The credit terms granted by the Group generally ranged between 30 to 90 days (2016: 14 to 90 days).

As at the end of the year, the ageing analysis of trade receivables based on invoice date is as follows:

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
1 to 30 days	<b>5,037</b>	1,318
31 to 60 days	<b>2,752</b>	740
61 to 90 days	<b>3,359</b>	3,482
91 to 120 days	<b>3,340</b>	110
121 to 150 days	<b>4,457</b>	3,086
151 to 180 days	<b>2,957</b>	457
Over 181 days	<b>5,065</b>	3,353
	<b>26,967</b>	12,546

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables, the estimated impairment losses are recognised in a separate provision for impairment.

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in consolidated income statement within "administrative expenses". See note 2.11 for information about how impairment losses are calculated.

## Notes to the Consolidated Financial Statements (Continued)

**19 Trade Receivables (Continued)**

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	2017 HK\$'000	2016 HK\$'000
At 1 January	—	—
Provision for impairment recognised during the year	2,797	—
Exchange differences	199	—
At 31 December	2,996	—

As at the end of the year, trade receivables approximately of HK\$15,854,000 (2016: HK\$5,389,000) were considered past due but not impaired. These relate to customers for whom there are no significant financial difficulties and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2017 HK\$'000	2016 HK\$'000
1 to 30 days	4,975	297
31 to 60 days	2,658	1,578
61 to 90 days	4,286	608
91 to 180 days	3,904	2,804
181 to 365 days	5	54
Over 365 days	26	48
	15,854	5,389

The maximum exposure to credit risk is the carrying amounts of trade receivables and the Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values as at the end of the year and are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
US\$	23,662	10,837
RMB	3,305	1,709
	26,967	12,546

## Notes to the Consolidated Financial Statements (Continued)

**20 Prepayments, Deposits and Other Receivables**

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
Rental, utilities and other deposits	94	94
Prepayments	7,098	3,636
Prepayments for listing	—	2,060
Other receivables	1,861	1,719
	<b>9,053</b>	7,509
Less non-current portion: Prepayments	(4,791)	—
	<b>4,262</b>	7,509

The carrying amounts of prepayments, deposits and other receivables as at the end of the year are denominated in the following currencies:

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
HK\$	518	2,021
US\$	442	129
RMB	8,093	5,359
	<b>9,053</b>	7,509

The carrying amounts of deposits and other receivables approximate their fair values as at the end of the year.

## Notes to the Consolidated Financial Statements (Continued)

**21 Cash and Cash Equivalents**

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
Cash on hand	34	85
Cash at bank	67,003	40,969
Short-term bank deposits	29,375	—
Cash and cash equivalents	<b>96,412</b>	41,054

Cash and cash equivalents are denominated in the following currencies:

	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
HK\$	65,753	1,313
US\$	28,014	31,812
RMB	2,598	7,877
Others	47	52
	<b>96,412</b>	41,054

## Notes to the Consolidated Financial Statements (Continued)

**22 Share Capital and Share Premium**

<b>Authorised share capital</b>	<b>Number of Ordinary share</b>	<b>Nominal value of ordinary share HK\$'000</b>
As at 8 February 2017 (Date of incorporation) (Note a)	38,000,000	380
Increase in authorised share capital (Note b)	9,962,000,000	99,620
As at 31 December 2017	10,000,000,000	100,000

<b>Issued and fully paid</b>	<b>Number of Ordinary share</b>	<b>Nominal value of ordinary share HK\$'000</b>	<b>Share premium HK\$'000</b>
As at 8 February 2017 (Date of incorporation) (Note a)	1	—	—
Issuance of ordinary shares of HK\$0.01 each (Note c)	2	—	—
Issuance of shares pursuant to capitalisation (Note d)	299,999,997	3,000	(3,000)
Issuance of ordinary shares of HK\$0.69 each (Note e)	100,000,000	1,000	68,000
Listing expenses charged to share premium (Note e)	—	—	(8,812)
As at 31 December 2017	400,000,000	4,000	56,188

## Notes:

- (a) On 8 February 2017, the Company was incorporated in the Cayman Islands. On the date of its incorporation, one nil-paid share was allotted and issued to Sharon Pierson and was subsequently transferred to Mr. Or Naam. On 1 March 2017, Mr. Or Naam transferred the share to Classic Charm at nil consideration.
- (b) On 29 September 2017, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 shares of HK\$0.01 each.
- (c) On 25 September 2017, pursuant to a sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chu and the Company, Mr. Or Naam and Ms. Chu transferred their entire shareholding interests in Takbo to Full Colour for one share issued by the Company to Classic Charm credited as fully paid. On 25 September 2017, pursuant to a sale and purchase agreement dated at September 2017 entered into between Mr. Or Naam, Ms. Chan and the Company, Mr. Or Naam and Ms. Chan transferred their entire shareholding interests in B&B to Dawning Beauty for one share issued by the Company to Classic Charm credited as fully paid.
- (d) On 29 September 2017, the Company has capitalised an amount of HK\$2,999,999.97 standing to the credit of the share premium account by applying such sum in paying up in full at par 299,999,997 shares for allotment and issue to the shareholders whose names appear on the register of members of the Company in proportion to their existing shareholdings in the Company.
- (e) In connection with the Listing, 100,000,000 shares of HK\$0.01 each were issued at the offer price of HK\$0.69 to public investors with gross proceeds of HK\$69,000,000. HK\$1,000,000 was credited to the share capital account and approximately HK\$59,188,000 (net of professional fee of approximately HK\$8,812,000) was credited to share premium account.

## Notes to the Consolidated Financial Statements (Continued)

### 23 Reserve

#### (a) Capital and other reserve

Capital and other reserve of the Group include the excess of the aggregate net assets values of the subsidiaries acquired by the Company over the nominal consideration payable by the Group for the acquisition of subsidiaries pursuant to the Reorganisation as described in Note 1.2.

#### (b) Statutory reserve

Under the relevant PRC laws and regulations, PRC companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset against accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

### 24 Trade Payables

The ageing analysis of the trade payables based on invoice dates as at the end of the year were as follows:

	2017 HK\$'000	2016 HK\$'000
1 to 30 days	2,262	4,378
31 to 60 days	861	46
61 to 90 days	275	67
91 to 120 days	1,440	8
121 to 180 days	2,004	78
181 to 365 days	105	164
Over 365 days	185	—
	<b>7,132</b>	<b>4,741</b>

The carrying amounts of trade payables approximate their fair values as at the end of the year are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
US\$	1,038	—
HK\$	—	23
RMB	6,094	4,718
	<b>7,132</b>	<b>4,741</b>



## Notes to the Consolidated Financial Statements (Continued)

**25 Accruals, Provisions and Other Payables**

	2017 HK\$'000	2016 HK\$'000
<b>Non-current portion</b>		
Provision for long service payments	393	403
<b>Current portion</b>		
Receipts in advance	490	547
Provisions and accrued expenses	2,679	1,669
Accrued listing expenses	78	861
Other payables	1,597	349
	<b>4,844</b>	<b>3,426</b>

The carrying amounts of accruals, provisions and other payables as at the end of the year are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	2,000	1,530
US\$	2,610	547
RMB	627	1,752
	<b>5,237</b>	<b>3,829</b>

The carrying amounts of accruals and other payables approximate their fair values as at the end of the year.

## Notes to the Consolidated Financial Statements (Continued)

**26 Bank Borrowings**

	2017 HK\$'000	2016 HK\$'000
Bank borrowings	—	6,960

As at the end of the year, the Group has no banking facility (2016: HK\$26,560,000) and no bank borrowing (2016: HK\$6,960,000) was drawn by any of the Group companies.

As at the end of reporting period, the weighted effective interest rates of the Group's borrowings is nil (2016: 5.44%).

	2017 HK\$'000	2016 HK\$'000
Within 1 year	—	6,960

As at 31 December 2016, the Group's bank borrowings were secured by the land use right of Shantou Baoma Processing Complex Company Limited, a related party of the Group.

The guarantee provided by the related party and the shareholder was released in February 2017.

Pursuant to the terms set out in certain banking facilities granted to the Group, the Group has to comply with certain restrictive financial covenants.

Fair value of current borrowings equal their carrying amount as the impact of discounting is not significant.

**27 Deferred Income Tax**

The analysis of deferred income tax assets is as follows:

	2017 HK\$'000	2016 HK\$'000
Deferred income tax assets		
— to be recovered after more than 12 months	1,658	696

## Notes to the Consolidated Financial Statements (Continued)

### 27 Deferred Income Tax (Continued)

The gross movement on the deferred income tax account is as follows:

	2017 HK\$'000	2016 HK\$'000
At 1 January	696	498
Recognised in the consolidated income statement ( <i>Note 12</i> )	912	198
Exchange differences	50	—
Deferred income tax assets	<b>1,658</b>	696

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

#### Deferred income tax assets

	Decelerated tax depreciation HK\$'000	Provisions HK\$'000	Total HK\$'000
As at 1 January 2016	269	229	498
Credited to the consolidated income statement	66	132	198
As at 31 December 2016 and 1 January 2017	335	361	696
Credited to the consolidated income statement	(26)	938	912
Exchange differences	—	50	50
As at 31 December 2017	309	1,349	1,658

As at the end of the year, deferred income tax liabilities of approximately HK\$459,000 (2016: HK\$394,000) have not been recognised for the withholding tax that would be payable on the unremitted retained earnings of the Group's subsidiary in the PRC amounting to approximately HK\$4,588,000 (2016: HK\$3,942,000).

## Notes to the Consolidated Financial Statements (Continued)

**28 Financial Asset at Fair Value Through Profit or Loss**

	2017 HK\$'000	2016 HK\$'000
Current portion	1,320	—

The fair value of financial assets at fair value through profit or loss are within level 3 of fair value hierarchy (Note 3.3).

**29 Cash Generated from Operations**

	2017 HK\$'000	2016 HK\$'000
Profit before income tax	9,702	17,130
Adjustments for:		
Depreciation of property, plant and equipment	1,568	1,551
Amortisation of intangible asset	65	68
Impairment of receivables	2,797	—
Gain on disposal of property, plant and equipment	—	(41)
Finance (income)/costs, net	(72)	143
Foreign exchange difference on operating activities	740	(298)
Operating profit before working capital changes	14,800	18,553
Changes in working capital:		
Inventories	(2,799)	(4,942)
Trade receivables	(14,183)	10,653
Prepayments, deposits and other receivables	2,081	638
Related companies balances	460	(5,403)
Financial assets at fair value through profit or loss	(1,232)	4,118
Trade payables	2,461	(114)
Accruals, provisions and other payables	885	1,314
Receipt in advance	(57)	(410)
Cash generated from operations	2,416	24,407

## Notes to the Consolidated Financial Statements (Continued)

**29 Cash Generated from Operations (Continued)**

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2017 HK\$'000	2016 HK\$'000
Cost disposed	—	1,243
Accumulated depreciation	—	(1,187)
Gain on disposal of property, plant and equipment ( <i>Note 7</i> )	—	41
	—	97

**Reconciliation of liabilities arising from financing activities:**

For the year ended 31 December 2017

	1 January 2017 HK\$'000	Cash flows HK\$'000	Non-cash changes		31 December 2017 HK\$'000
			Net settlement of the balances between the related parties and the Group HK\$'000	Foreign exchange movement HK\$'000	
Bank borrowings	6,960	(6,720)	—	(240)	—
Amounts with related parties	50,798	(1,702)	(49,269)	173	—
	57,758	(8,422)	(49,269)	(67)	—

## Notes to the Consolidated Financial Statements (Continued)

**29 Cash Generated from Operations (Continued)****Reconciliation of liabilities arising from financing activities: (Continued)**

For the year ended 31 December 2016

	1 January 2016 HK\$'000	Cash flows HK\$'000	Non-cash changes Foreign exchange movement HK\$'000	31 December 2016 HK\$'000
Bank borrowings	4,055	3,198	(293)	6,960
Amounts with related parties	33,093	17,539	166	50,798
	37,148	20,737	(127)	57,758

**Non-cash transaction:**

On 6 March 2017, all of the related companies with non-trade balances with the Group, the directors and a shareholder of the Group and the Group entered into a contractual arrangement to settle their respective balances with the Group. Non-trade receivables from the related companies amounting to approximately HK\$49,269,000 were net settled with non-trade payables to the directors and a shareholder of the Group.

A special dividend of approximately HK\$8,940,000 was declared on 6 March 2017 which was settled through the current account with related companies.

**30 Contingencies**

As at the end of the year, the Group did not have any significant contingent liabilities (2016: nil).

**31 Commitments****(a) Capital commitments**

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2017 HK\$'000	2016 HK\$'000
Property, plant and equipment	8,213	2,213

## Notes to the Consolidated Financial Statements (Continued)

### 31 Commitments (Continued)

#### (b) Non-cancellable operating leases

##### As a lessee

As at the end of the year, The Group leases office and residential premises under non-cancellable operating lease agreements with related companies. The leases terms are between 3 to 10 years (2016: 1.25 to 5 years) and are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 HK\$'000	2016 HK\$'000
No later than one year	4,259	2,597
Later than one year and no later than five years	13,136	994
Later than five years	10,429	—
	<b>27,824</b>	<b>3,591</b>

### 32 Related Party Transactions

The Group is controlled by Classic Charm Investments Limited (incorporated in British Virgin Islands), which is the ultimate parent of the Group and owns 75% of the Company's shares. The remaining 25% of the shares are widely held. The ultimate controlling party of the Group is Mr. Or Naam, Ms. Chu and Ms. Chan.

The directors of the Group are of the view that the following individuals and companies were related parties that had transactions or balances with the Group as at and during the year:

Name of related party	Relationship with the Group
Mr. Or Tak Ming	Spouse of Ms. Chu
Mr. Or Huen	Brother of Mr. Or Naam and son of Mr. Or Tak Ming and Ms. Chu
Chapmont Limited	Controlled by Ms. Chu and Mr. Or Tak Ming
Sky Choice Development Limited	Controlled by Mr. Or Naam and Ms. Chu
Smart Path Development Limited	Controlled by Mr. Or Naam and Ms. Chan
Max Choice Limited	Controlled by Ms. Chan
Tak Bo Hong	Controlled by Ms. Chu and Mr. Or Tak Ming
Tak Bo Hong Company Limited	Controlled by Mr. Or Naam and Ms. Chu
Shantou Baoma Processing Complex Company Limited	Controlled by Ms. Chu and Mr. Or Tak Ming
V.M. Limited	Controlled by Mr. Or Naam

## Notes to the Consolidated Financial Statements (Continued)

### 32 Related Party Transactions (Continued)

Other than those transactions and balances disclosed elsewhere in the Financial Statements, the following transactions were carried out with related parties during the year:

#### (a) Transactions with related parties

The following transactions were undertaken by the Group with relate parties during the year:

	2017 HK\$'000	2016 HK\$'000
Continuing transactions:		
Shantou Baoma Processing Complex Company Limited		
— Purchases	12,924	13,272
— Utility expenses	603	587
— Rental expenses	1,062	499
Sky Choice Development Limited		
— Rental expenses	877	925
Smart Path Development Limited		
— Rental expenses	1,200	1,200

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

#### (b) Key management compensation

Key management personnel are deemed to be the members of the Board of Directors of the Company who have responsibility for the planning directing and controlling the activities of the Group.

The compensation paid or payable to key management personnel for employee services period is shown below:

	2017 HK\$'000	2016 HK\$'000
Salaries and bonuses	3,488	5,951
Other allowances and benefits in kind	1,434	2,070
Defined contribution pension costs	54	54
	4,976	8,075



## Notes to the Consolidated Financial Statements (Continued)

**32 Related Party Transactions (Continued)****(c) Amounts due from related parties**

	2017 HK\$'000	2016 HK\$'000
Amounts due from related companies		
— Chapmont Limited ( <i>Note i</i> )	—	6,174
— Sky Choice Development Limited ( <i>Note i</i> )	—	23,576
— Smart Path Development Limited ( <i>Note i</i> )	—	3,680
— Tak Bo Hong ( <i>Note i</i> )	—	33,340
— Tak Bo Hong Company Limited ( <i>Note i</i> )	—	30
— Max Choice Limited ( <i>Note i</i> )	—	618
— V.M. Limited ( <i>Note i</i> )	—	5,934
— Shantou Baoma Processing Complex Company Limited ( <i>Note ii</i> )	370	319
	<b>370</b>	73,671

As at the end of the year, there was no impairment for the amounts due from related parties, as the amounts have not past due and they have no history of default in payment (2016: nil).

*Notes:*

- (i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.
- (ii) The balance is trade in nature, unsecured interest-free and aged within 1–30 days.

The carrying amount of amount due from a shareholder, amount due from a related party and amount due from related companies approximate their fair values. The balances are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	—	67,418
US\$	—	6,149
RMB	370	104
	<b>370</b>	73,671

## Notes to the Consolidated Financial Statements (Continued)

**32 Related Party Transactions (Continued)****(d) Amounts due to related parties**

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Amounts due to directors		
— Mr. Or Naam ( <i>Note i</i> )	—	27,648
— Ms. Chan ( <i>Note i</i> )	—	6,103
— Mr. Or Huen ( <i>Note i</i> )	—	4,645
Amounts due to a shareholder		
— Ms. Chu ( <i>Note i</i> )	—	11,046
Amount due to a related party		
— Mr. Or Tak Ming ( <i>Note i</i> )	—	1,356
Amount due to a related company		
— Shantou Baoma Processing Complex Company Limited ( <i>Note ii</i> )	535	—
	<b>535</b>	<b>50,798</b>

*Notes:*

- (i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.
- (ii) The balances are trade in nature, unsecured, interest-free and aged within 1–30 days.

## Notes to the Consolidated Financial Statements (Continued)

**32 Related Party Transactions (Continued)****(d) Amounts due to related parties (Continued)**

The carrying amount of amounts due to directors, amount due to a shareholder, amount due to a related party and amount due to a related company approximate their fair values. The balances are denominated in the following currencies:

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
HK\$	—	45,789
RMB	—	5,009
US\$	535	—
	535	50,798

**33 Dividend**

No dividend has been paid or declared by the Company during the period from its date of incorporation to 31 December 2017. On 6 March 2017, the directors of Takbo declared to its then shareholders, Mr. Or Naam and Ms. Chu, a special dividend of HK\$8,940,000 and such dividend was distributed by way of setting-off against amounts due from related companies.

## Notes to the Consolidated Financial Statements (Continued)

**34 Balance Sheet and Reserve Movement of the Company****Balance sheet of the Company**

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in a subsidiary		84,836	—
<b>Current assets</b>			
Amounts due from subsidiaries		10	—
Cash and cash equivalents		62,908	—
		62,918	—
<b>Total assets</b>		<b>147,754</b>	<b>—</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		4,000	—
Share premium	<i>(a)</i>	141,034	—
Accumulated losses	<i>(a)</i>	(18,003)	—
<b>Total equity</b>		<b>127,031</b>	<b>—</b>
<b>Current liabilities</b>			
Amounts due to subsidiaries		20,645	—
Accruals		78	—
<b>Total liabilities</b>		<b>20,723</b>	<b>—</b>
<b>Total equity and liabilities</b>		<b>147,754</b>	<b>—</b>

The Company was incorporated on 8 February 2017 with an authorised share capital of HK\$380,000, divided into 38,000,000 shares of HK\$0.01 each. As at 31 December 2016, the Company had not been incorporated and, accordingly, it had no assets, liabilities or distributable reserves on that date.

The balance sheet of the Company was approved by the Board of Directors on 20 March 2018 and was signed on its behalf.

**Or Naam**  
Director

**Chan Hoi Yan, Polly**  
Director

## Notes to the Consolidated Financial Statements (Continued)

**34 Balance Sheet and Reserve Movement of the Company (Continued)****(a) Reserve movement of the Company**

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>As at 8 February 2017 (Date of incorporation)</b>	—	—	—
Issuance of shares pursuant to the Reorganisation (Note i)	84,846	—	84,846
Issuance of shares pursuant to capitalisation	(3,000)	—	(3,000)
Share issues under share offer	68,000	—	68,000
Listing expenses charged to share premium	(8,812)	—	(8,812)
Loss for the period	—	(18,003)	(18,003)
<b>As at 31 December 2017</b>	141,034	(18,003)	123,031

Note (i): The investment in a subsidiary was accounted for using the net asset value in September 2017. The difference between the net asset value and the nominal value of issued share capital for the acquisition of Takbo and B&B amounted to approximately HK\$84,846,000 was credited as share premium.

## Three Years Financial Summary

<b>RESULTS</b>	<b>2017</b>	2016	2015
	<b>HK\$'000</b>	HK\$'000	HK\$'000
Revenue	<b>179,369</b>	165,098	170,807
Profit before income tax	<b>9,702</b>	17,130	15,812
Income tax expenses	<b>(4,232)</b>	(3,470)	(2,929)
Profit attributable to the owners of the Company for the year	<b>5,470</b>	13,660	12,883
Total comprehensive income attributable to the owners of the Company for the year	<b>6,455</b>	12,361	12,883
Total assets	<b>154,341</b>	147,959	127,512
Total liabilities	<b>15,339</b>	66,660	58,574
Net assets	<b>139,002</b>	81,299	68,938
Equity attributable to owners of the Company for the year	<b>139,002</b>	81,299	68,938