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 2018

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Corporate Information

Executive Directors

Mr. Or Naam *(Chief Executive Officer)*
Ms. Chan Hoi Yan Polly
Mr. Or Huen

Independent Non-executive Directors

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

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

CEO's Statement

Dear Shareholders,

Our behalf of the board (the "Board") of directors (the "Directors") 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 to as the "Group") for the year ended 31 December 2018.

During the latest financial year, leveraging the advantage of the listed platform and our talents, we have further strengthened our position as a beauty products manufacturer and solutions provider of beauty bags, which in turn led to a substantial growth of our business performance with a promising increment of overall profits and returns to the shareholders of the Company.

The year 2018 has marked a challenging year for many manufacturing players, especially for those working closely with the PRC market, as it was a year characterized by numerous uncertainties such as the trade war between the United States of America ("US") and the PRC. Nevertheless, our Group had considered various strategies to counter and minimize the contingent risks from the changing global business environment. Together with our continuing effort to enhance sales strategy and client management, the Group achieved a record high sales performance over the past three years.

Through our proactive participation in both local and global beauty exhibitions, strengthening business relationship with existing customers and expansion of our PRC factory, the Group is well-prepared for the challenges ahead and believe there would be another promising year in 2019.

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

Or Naam
Chief Executive Officer and Executive Director

Hong Kong, 1 March 2019

Management Discussion and Analysis

Market Overview

With the uncertainties throughout the global economy in the year of 2018, the market generally became more challenging. Nevertheless, since most of the customers of the Group are from North America region, our growing business for the year was attributable to the stable and even improving economy of the US, supporting solid and high customer spending in US.

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. The core business and revenue structure of the Group has remained unchanged for the year ended 31 December 2018.

Upon listing of the Company in October 2017, it has been one of the Group's strategies to strengthen its core business by way of launching new products and marketing activities. During the year, the Group has explored various marketing activities and enrolled different types of exhibitions such as China Beauty Expo 2018 in Shanghai with an aim to develop and consolidate relationship with customers to enable the Group to secure more contracts in both local and international markets. In addition, the Group has launched Mother's Day beauty products and offered strategic promotion of beauty bags to its customers, and received favorable and remarkable responses with significant revenue recorded during the year ended 31 December 2018.

Prospect

Looking forward, the Group considers the global business environment will become more challenging. The economic atmosphere and confidence could definitely be adversely affected by the trade war between the US and the PRC, which is expected to impose challenges to the Group as the US market is our major export market. Any additional import duties that may be imposed on our US customers for our beauty products and beauty bags will increase the purchasing costs of our customers, which may potentially adversely affect our sales. The Group will stay alert of the trade war and any changing business environment that may impact on its operations and its profitability. At the same time, the Group will evaluate and determine if any business strategy can be adopted to promote sales and reduce costs on our products exported to the US.

The goal of our Group is very clear, that is to strengthen our position as a beauty products manufacturer and solutions provider of beauty bags, and leverage on our competitive advantages to expand our operational scale and increase overall profit.

Management Discussion and Analysis (Continued)

Financial Highlight and Overview

	For the year ended 31 December		
	2018	2017	Change
	HK$'000	HK$'000	%
Revenue	**258,782**	179,369	44.3
Gross profit	**87,521**	65,947	32.7
Gross profit margin	**33.8%**	36.8%	(3.0)
Net profit	**32,249**	5,470	489.6
Earnings per share (in HK cents)	**8.1**	1.7	376.5

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 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	HK$'000	**%**	HK$'000	%
Beauty products	**193,375**	**74.7**	111,087	61.9
Beauty bags	**65,407**	**25.3**	68,282	38.1
Total	**258,782**	**100.0**	179,369	100.0

Revenue of the Group for the year ended 31 December 2018 amounted to approximately HK$258.8 million, representing an increase of approximately 44.3% over the corresponding period of the previous year. The increase was mainly attributable to the successful marketing strategy, stable relationship with current customers who placed orders regularly, as well as the orders contributed from new customers acquired from our enrolled exhibitions during the year.

The gross profit of the Group for the year ended 31 December 2018 amounted to approximately HK$87.5 million, representing an increase of approximately 32.7% over the corresponding period of the previous year. The gross profit margin of the Group decreased from approximately 36.8% to approximately 33.8% mainly as a result of different product mix and increase in sales volume with relatively lower average selling prices.

Profit attributable to equity holders of the Company for the year ended 31 December 2018 amounted to approximately HK$32.2 million, representing an increase of approximately 489.6% over the corresponding period of the previous year. The significant increase was mainly attributable to the combined effect of higher sales demand, exchange gain due to RMB depreciation and there being no listing expenses incurred for the year ended 31 December 2018.

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 2018 (the "Prospectus") and the Group's actual business progress for the year ended 31 December 2018 (the "Year"):

Business plan for the Year as set out in the Prospectus	Actual business progress as at 31 December 2018
Upgrade production hardware, and facilities and infrastructure	
— Purchase, installation and testing of approximately three lipstick production lines, four glue machines, five liquid mixers, 13 compressors, 14 filling machines and 31 conveyor belts	— The Group is in the progress on upgrading production hardware and infrastructure in both phases, which are expected to be completed in first half of 2019.
— Pilot run of the New Cosbe Facility Phase 2	
— Commence formal commercial operation of the New Cosbe Facility Phase 2	
Expand the Hong Kong headquarters	
— Costs will be incurred as rent and utility expenses for the new Hong Kong headquarters	— The Group has rented and renovated a new office premises for our showroom for displaying various beauty products and beauty bags for sales purpose since February 2018.
— Costs will be incurred as remuneration payable to the eight additional staff recruited for the expansion in the previous period	— The Group has recruited several experienced personnel for overseeing the overall operation of beauty products and beauty bags as well as senior officers for assisting the selling and marketing activities.
Participate in local and global exhibitions	
— Generally participate in one exhibition in Hong Kong and one exhibition overseas	— The Group participated the China Beauty Expo 2018 in Shanghai in May 2018 and Cosmoprof 2018 in Hong Kong in November 2018.
	— The Group has developed relationship with various potential customers from the exhibitions.

Management Discussion and Analysis (Continued)

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, were 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 2018, 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.

As at 31 December 2018, the net listing proceeds has been applied and utilized as follows:

Use of net proceeds	Total net proceeds from share offer (HK$'000)	Total remaining net proceeds available as at 1 January 2018 (HK$'000)	Planned use of net proceeds for the year ended 31 December 2018 (HK$'000)	Utilized for the year ended 31 December 2018 (HK$'000)	Total remaining net proceeds available as at 31 December 2018 (HK$'000)
Upgrade production hardware, and facilities and infrastructure	23,670	19,066	17,333	14,921	4,145
Expand the Hong Kong headquarters	11,245	11,231	5,550	1,853	9,378
Participate in local and global exhibitions	3,538	3,271	1,601	1,191	2,080
General working capital	3,665	3,143	1,400	1,573	1,570
Total	42,118	36,711	25,884	19,538	17,173

Management Discussion and Analysis (Continued)

Liquidity and Financial Resources

The Group practiced prudent financial management and maintained a strong and sound financial position during the year ended 31 December 2018. The Group finances its daily operations through a combination of net funds generated and received from operations and net proceeds from the share offer. As of 31 December 2018, the Group had cash and cash equivalents of approximately HK$103.6 million (2017: approximately HK$96.4 million). The increase in cash and cash equivalents was mainly attributable to net cash inflow from operating activities.

The current ratio, calculated as the total current assets divided by total current liabilities, was approximately 8.1 times as at 31 December 2018 (2017: approximately 9.0 times). As at 31 December 2018, 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 decreased by approximately HK$11.8 million or approximately 28.3% from approximately HK$42.0 million for the year ended 31 December 2017 to approximately HK$30.2 million for the year ended 31 December 2018. The decrease was mainly attributable to the listing expenses of approximately HK$15.7 million incurred for the year ended 31 December 2017 and there being no listing expenses incurred for the year ended 31 December 2018, offsetting a general increase in administrative costs according to the expanding business activities.

Selling Expenses

The selling expenses of the Group increased by approximately HK$13.1 million or approximately 106.3% from approximately HK$12.3 million for the year ended 31 December 2017 to approximately HK$25.4 million for the year ended 31 December 2018. The increase was mainly due to our extensive selling activities and thus higher costs such as transportation and courier costs, sample charges, duties, inspection and testing fees as well as exhibition and marketing expenses were incurred for more sales transactions taken place during the year ended 31 December 2018.

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 in the USA and purchases from suppliers in the PRC. The Directors are of the opinion that the foreign exchange risk arising from US$ against RMB of the Group is insignificant and manageable.

During the year ended 31 December 2018, the Group has not entered into any agreement or commit to any financial instruments 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 2018 for speculative and investment purposes.

Management Discussion and Analysis (Continued)

Contingent Liabilities and Capital Commitments

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil). The Group had capital commitment of approximately HK$8.6 million in relation to expenditure on our factory expansion (31 December 2017: approximately HK$8.2 million) and operating leases of approximately HK$24.7 million (31 December 2017: approximately HK$27.8 million) as at 31 December 2018.

Pledge of Assets

The Group did not have pledged assets as at 31 December 2018 (31 December 2017: Nil).

Capital Structure

During the year ended 31 December 2018, there has been no change to the shares in issue and capital structure of the Company. The capital of the Company comprises ordinary shares and capital reserves. The Group finances its operations, working capital, capital expenditures and other liquidity requirements through a combination funds generated from operations 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 2018 save for the factory expansion plan, details of which are set out in the Company's Prospectus.

Significant Investments Held

As at 31 December 2018, the Group did not have any significant investment in equity interest in any other company and did not own any properties (31 December 2017: 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 2018.

Management Discussion and Analysis (Continued)

Employees and Remuneration Policies

As at 31 December 2018, the Group had 139 full-time employees in Hong Kong and the PRC (31 December 2017: 115 employees), including the Directors. Total staff costs (including Directors' emoluments) were approximately HK$16.1 million for the year ended 31 December 2018 as compared to approximately HK$14.3 million for the year ended 31 December 2017. Such increase was mainly due to increase in headcount and general increase in salary of the PRC employees.

Remuneration is determined with reference to duties, responsibilities, experience and skills. On top of basic salaries, 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 2018.

Biographical Details of the Directors of the Company and Senior Management

Executive Directors

Mr. Or Naam, aged 50, 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 2018 and re-designated as an executive Director and chief executive officer of our Company on 27 February 2018. 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 24 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 Siu Fong (controlling shareholder), brother of Mr. Or Huen (an executive director) and brother-in-law of Ms. Chan Hoi Man (“Ms. HM Chan”), a merchandising manager of the Group.

Ms. Chan Hoi Yan, Polly, aged 47, has been with our Group since 1995. She was appointed as an executive Director on 27 February 2018. 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 24 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 (an executive director), sister-in-law of Mr. Or Huen (an executive director), daughter-in-law of Ms. Chu Siu Fong (controlling shareholder) and sister of Ms. HM Chan (a merchandising manager).

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

Mr. Or Huen, aged 42, has been with our Group since 2002. He was appointed as an executive Director on 27 February 2018. 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 16 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 (an executive director), son of Ms. Chu Siu Fong (controlling shareholder) and brother-in-law of Ms. Chan (an executive director).

Independent Non-executive Directors

Mr. Tan Chong Huat, aged 55, 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. He was also appointed as a non-executive chairman of RHT Chestertons Singapore Pte. Ltd. with effect from 15 March 2018.

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.

Chong Huat is a Fellow with the Singapore Institute of Directors and the Hong Kong Institute of Directors. He has been appointed on the boards as non-executive chairman, vice chairman, and independent director of listed companies in Singapore and Hong Kong. He also cofounded RHT group of companies which is the leading professional services group in Asia.

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

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. 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 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, aged 43, 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 20 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 ("China Chuanglian") (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).

In September 2018, Mr. Sung was appointed as a director of Premier Management Limited, which is a corporation licensed under the Securities and Futures Ordinance and an indirectly wholly owned subsidiary of China Chuanglian.

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).

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

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 47, 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 16 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.

Senior management

Mr. Leung Chu Ho, aged 33, 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 11 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.

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

Ms. Lui Shuet Ching, aged 49, 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 21 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 ("Ms. HM Chan"), aged 39, 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 2017. 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 21 years of experience in the manufacturing industry. Ms. HM Chan is the sister of Ms. Chan.

Ms. Chu Choi Yin ("Ms. CY Chu"), aged 37, 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 12 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 ("Mr. Ng") 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 have pleasure in presenting their annual report together with the audited consolidated financial statements of the Group (the "Consolidated Financial Statements") for the year ended 31 December 2018 (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 11 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 47 to 58 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 maintains 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 64 to 125.

The Directors did not recommend the payment of a final dividend to shareholders of the Company for the Year (31 December 2017: Nil).

Four Years Financial Summary

A summary of the published results, assets and liabilities of the Group for the last four financial years is set out on page 126. This summary does not form part of the Consolidated Financial Statements.

Share Capital

As at 31 December 2018, 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 Year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Year.

Report of the Directors (Continued)

Distributable Reserves

As at 31 December 2018, the Company did not have any reserves available for distribution (31 December 2017: Nil). Details of the movement in reserve of the Company during the Year are set out in note 33 to the Consolidated Financial Statements.

Charitable Donations

During the Year, charitable and other donations made by the Group amounted to HK$6,000 (31 December 2017: 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	7.4%
— five largest suppliers in aggregate	28.2%
Sales	
— the largest customer	29.2%
— five largest customers in aggregate	85.9%

For the Year, one of our top five suppliers is 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 24 of this annual report.

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)*
Ms. Chan Hoi Yan Polly
Mr. Or Huen

Report of the Directors (Continued)

Independent Non-executive Directors:

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

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, Ms. Chan Hoi Yan Polly and Mr. Or Huen shall retire from office at the forthcoming annual general meeting to be held on 14 May 2019 (Tuesday) (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.

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.

Report of the Directors (Continued)

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 12 to 16 of this annual report.

Changes of Directors' Information

Mr. Sung Chi Keung was appointed as a director of Premier Management Limited in September 2018, which is a corporation licensed under the Securities and Futures Ordinance and an indirectly wholly owned subsidiary of China Chuanglian Education Financial Group Limited (stock code: 2371).

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 since the publication of interim report for the six months ended 30 June 2018 of the Company.

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 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 shall or may incur, 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.

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.

Report of the Directors (Continued)

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 31 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.

Continuing Connected Transactions

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

Agreement	**Parties**	**Term**	**Location**	**Annual cap for the year ended 31 December 2018** (HK$'000)	**Actual amount paid for the year ended 31 December 2018** (HK$'000)
Hong Kong Office Tenancy Agreement 1	Takbo (as tenant) and Sky Choice* (as landlord)	3 years from 1 February 2018	C2, 35th Floor, EGL Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong	185	185
Hong Kong Office Tenancy Agreement 2	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	1,480

Report of the Directors (Continued)

Agreement	Parties	Term	Location	Annual cap for the year ended 31 December 2018 (HK$'000)	Actual amount paid for the year ended 31 December 2018 (HK$'000)
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		
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	4,300 for Factory Tenancy Agreements 3 and 4	1,333
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	53	47
Purchase Framework Agreement	Takbo and Cosbe (as purchaser) and Baoma (as supplier)	3 years from 27 October 2017	N/A	13,500	10,785

* 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.

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 3 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 and the announcements of the Company.

Confirmation of Auditors of the Company

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 the Hong Kong Listing Rules" issued by the HKICPA. The external auditor issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions 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 my/our 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 Year.

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 Year. 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 31 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 Year, 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 2018, 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.

Report of the Directors (Continued)

Apart from the aforesaid Share Option Schemes, at no time during the year ended 31 December 2018 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 2018, 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:

(I) Long Position in the Ordinary Shares and Underlying Shares of the Company

(i) Interests in the Company

Interests in ordinary shares

Name of director	Personal interests	Family interests	Corporate interests	Total interests in ordinary shares	Total interests in underlying shares	Aggregate interests	% of the Company's issued voting shares
Mr. Or Naam *Note*	—	—	300,000,000	300,000,000	—	300,000,000	75%
Ms. Chan Hoi Yan Polly *Note*	—	—	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 2018, 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 2018, 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[Note]	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 2018, 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 2018.

Report of the Directors (Continued)

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.

Corporate Governance Report

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 30 to 46 in this annual report.

Annual General Meeting ("AGM")

The AGM of the Company will be held on 14 May 2019 (Tuesday) and the notice convening such meeting will be published and despatched to the shareholders of the Company in due course.

Closure of the Register of Members

The Register of Members of the Company will be closed from 8 May 2019 (Wednesday) to 14 May 2019 (Tuesday) (both days inclusive), during which period to transfers of shares will be registered. To determine the entitlement to attend and vote at the AGM of the Company, all transfer document, 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 7 May 2019 (Tuesday).

Auditor

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, 1 March 2019

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. The Company's corporate governance practices are based on the principles and code provisions as set out in the corporate governance codes (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules.

During the year ended 31 December 2018 (the "Year"), the Board considers that the Company has complied with all the CG Code as set out in Appendix 15 to the GEM Listing Rules. Details of compliance of the CG Code during the Year are explained in this corporate governance report.

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 (the "Relevant Employees"), 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 and the Relevant Employees, they all 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 Year.

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 Year, the Board comprises six Directors. As at 31 December 2018 and up to 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)*
Ms. Chan Hoi Yan Polly
Mr. Or Huen

Independent Non-executive Directors:

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

Corporate Governance Report (Continued)

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

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 12 to 16. 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.

Save as disclosed in the section headed “Biographical Details of the Directors and Senior Management” to this 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 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.

Chairman and Chief Executive Officer

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.

Independent Non-executive Directors

The Company has throughout the Year 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 Year, the independent non-executive Directors represent at least one-third of the Board pursuant to Rule 5.05A of the GEM Listing Rules.

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.

Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to 5.09 of the GEM Listing Rules to the Company in respect of their independence for the Year. 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 Year.

Corporate Governance Report (Continued)

Appointment and Re-election of Directors

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.

For the Year, the Company held four Board meetings and four audit committee meetings; while one meeting for each of the remuneration committee and nomination committee has also been held, and the Chairman met with all independent non-executive directors without the presence of the executive directors in compliance with the GEM Listing Rules.

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 Year:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Total number of meetings held	4	4	1	1	1
			Number of meetings attended		
Executive Directors					
Mr. Or Naam	3	3[a]	0	N/A	1
Ms. Chan Hoi Yan Polly	4	4[a]	1[a]	1[a]	1
Mr. Or Huen	3	3[a]	N/A	1	1
Independent Non-executive Directors					
Mr. Tan Chong Huat	4	4	1	1[a]	1
Mr. Sung Chi Keung	4	4	1	1	1
Mr. Wong, Irving Holmes Weng Hoong	3	3	N/A	0	1

Note a: Attended as an invitee

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.

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 shall attend to answer questions from shareholders at the annual general meeting.

Corporate Governance Report (Continued)

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.

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.

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.

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 and they may join institutes and attend relevant training seminars or informative talk from time to time to enable them to better discharge their duties. The Company encourages the directors to attend courses in areas of directors' duties and responsibilities, corporate governance, changes in financial reporting standards, insider trading and any industry-related matters, to develop themselves professionally, at the Company's expense.

Corporate Governance Report (Continued)

For the Year, regulatory updates have been provided and sent to all the Directors, include:

— briefing by the external auditor on changes or amendments to accounting standards at the AC meetings; and

— update by the Company Secretary on proposed amendments to the GEM Listing Rules from time to time.

The Company shall from time to time arrange for relevant and appropriate continuous professional training to all Directors to develop and refresh their knowledge and skills to enable them to be better discharge their duties as a Director of the Company.

Board Committees

The Board has established three Board committees, namely the audit committee, the remuneration committee and the nomination committee for overseeing specific aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the GEM website of the Stock Exchange, and are available to shareholders upon request.

Audit Committee

The Company established an audit committee on 29 September 2017 with written terms of reference in compliance with Rule 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Company has updated the written terms of reference of audit committee on 9 November 2018 in compliance with the new CG Code with effect from 1 January 2019. The revised 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 Year 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 within 2 years immediately prior to their respective date of appointment. All of them do not have material interest in any principal business activity of nor is or was involved in any material business dealings with the Group or with any core connected persons (as defined in the GEM Listing Rules) of the Group within one year immediately prior to their respective date of appointment.

Corporate Governance Report (Continued)

Mr. Sung Chi Keung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the Chairman of the Audit Committee.

During the Year, the audit committee held four meetings. 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.

The summary of work of the audit committee during the Year is as follows:

— To meet with the external auditors, review and make recommendations for the Board's approval on the financial statements, quarterly, interim and annual reports and continuing connected transactions of the Group;

— To review and approve audit fee;

— To review and assess the independence of the auditors;

— To review the terms of engagement and make recommendation to the Board for the re-appointment of auditors of the Company, 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 Rule 5.34 of the GEM Listing Rules and the CG Code. 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 Year and up to the date of this report is as follows:

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

Corporate Governance Report (Continued)

The majority members of the remuneration committee are independent non-executive Directors. During the Year, the remuneration committee held one meeting. 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.

The summary of work of the remuneration committee during the Year 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.

Details of the emoluments paid to the Directors and highest paid individuals for the Year are set out in Note 10 to the Consolidated Financial Statements.

Nomination Committee

The Company established the nomination committee on 29 September 2017 with written terms of reference in compliance with paragraph A.5 of 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 Year 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. During the Year, the nomination committee held one meeting. 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.

Corporate Governance Report (Continued)

The summary of work of the nomination committee during the Year is as follows:

— To review the existing Board's structure, size and composition;

— To review the board diversity policy;

— To review the nomination policy;

— To review and assess the independence of the independent non-executive Directors; and

— To make recommendations on the retiring Directors at the 2019 AGM of the Company.

Board Nomination Policy

The Company adopted a nomination policy on 9 November 2018 in compliance with the CG Code with effect from 1 January 2019, which establishes written guidelines to nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

The Board, through the delegation of its authority to the nomination committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group's business to enable the Board to make sound and well considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group.

Nomination Process

The nomination committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required.

The nomination committee utilizes various methods for identifying director candidates, including recommendations from Board members, management, and professional search firms. All director candidates, including incumbents and candidates nominated by Shareholders are evaluated by the nomination committee based upon the director qualifications. While director candidates will be evaluated on the same criteria through review of resume, personal interview and performance of background checks. The nomination committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business.

Corporate Governance Report (Continued)

Selection Criteria

The nomination committee will take into account whether a candidate has the qualifications, skills, experience and gender diversity that add to and complement the range of skills, experience and background of existing Directors by considering the highest personal and professional ethics and integrity of the director candidates, proven achievement and competence in the nominee's field and the ability to exercise sound business judgment, skills that are complementary to those of the existing Board, the ability to assist and support management and make significant contributions to the Company's success and such other factors as it may deem are in the best interests of the Company and its Shareholders.

The Company shall review and reassess the nomination policy and its effectiveness on a regular basis or as required.

Board Diversity Policy

The composition of the Board is reviewed on an annual basis by the nomination committee to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning. The Company adopted its own board diversity policy and recognises the benefits of having diversity in the composition of the Board.

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, nomination committee will consider factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service.

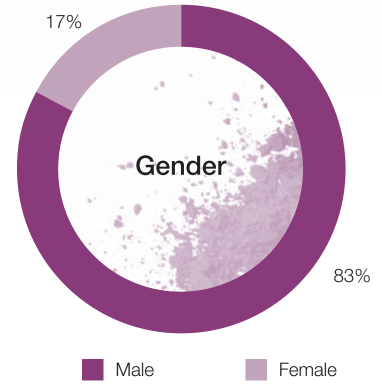
All Board appointments will be based on meritocracy, and candidates will be considered against the selection criteria, having regard for the benefits of diversity on the Board, the business model and specific needs of the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

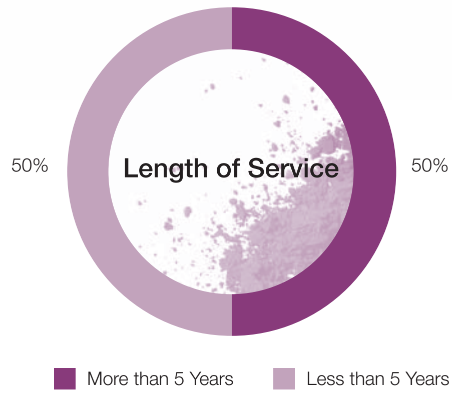
Corporate Governance Report (Continued)

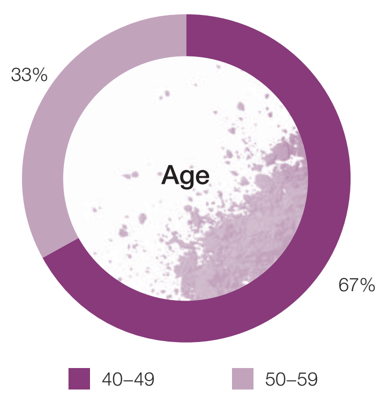
Composition of the Diversified Board

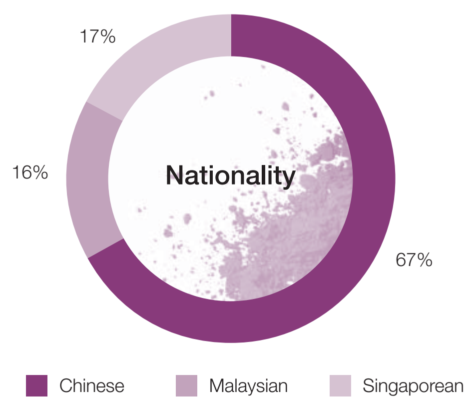
As at the date of this annual report, the Board comprises six Directors, one of which is a female. The following diagram and/or table further illustrate the composition and diversity of the Board in terms of gender, length of service with the Group, age, nationality, educational background and professional experience as of the date of this annual report:

	Age Group		Ethnicity		
Name of Director	**40 to 49**	**50 to 59**	**Chinese**	**Malaysian**	**Singaporean**
Mr. Or Naam		✓	✓		
Ms. Chan Hoi Yan Polly	✓		✓		
Mr. Or Huen	✓		✓		
Mr. Tan Chong Huat		✓			✓
Mr. Sung Chi Keung	✓		✓		
Mr. Wong, Irving Holmes Weng Hoong	✓			✓	









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

Corporate Governance Report (Continued)

	Educational background				Professional experience		
Name of Director	Law	Science	Accountancy	Design/ Other	Management	Accounting and finance	Law
Mr. Or Naam				✓	✓		
Ms. Chan Hoi Yan Polly				✓	✓		
Mr. Or Huen		✓			✓		
Mr. Tan Chong Huat	✓						✓
Mr. Sung Chi Keung			✓			✓	
Mr. Wong, Irving Holmes Weng Hoong				✓	✓		

The nomination committee considers the existing size and composition of the Board are adequate and diversified for effective decision-making, taking into account the nature and scope of the Group's operations. The nomination committee has also 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 Year, 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.

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 2018 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 59 to 63 of the Consolidated Financial Statements.

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.

During the year ended 31 December 2018, 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 risks management and internal controls including financial, operational, compliance, risk management policies and systems established the Company in connection with the risk management process, resources, qualifications and experience of staff of accounting, internal audit and financial reporting, investment management process, expenditure requisition process, intangible assets management process and fixed assets management process.

APAC has 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

Corporate Governance Report (Continued)

Based on their procedures performed, APAC reported that no significant deficiencies were identified and recommendations on the following aspects had been suggested to audit committee and management for their consideration:

— Customer evaluation
— Bank reconciliation
— Physical inventory count
— Supplier evaluation

The audit committee also reported such findings and recommendations to the Board for the improvement of the risk management and internal control systems of the Group 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 2018 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, the Group had engaged an independent internal control consultant to assess our overall internal controls and to give recommendations to make any enhancement. It was reported that that there were no material deficiencies in relation to the Group's internal controls. The Board is of the view that the internal control measures of the Group are adequately and effectively monitor our business operations for the Year.

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.

External Auditors' Remuneration

During the Year, the Company engaged PricewaterhouseCoopers as the external auditors. The fee in respect of audit services and non-audit services provided by PricewaterhouseCoopers for the Year amounted to HK$900,000 and HK$34,000 respectively.

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.

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, there has been no changes in the constitutional documents of the Company.

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 Year.

Corporate Governance Report (Continued)

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.

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.

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.

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.

Corporate Governance Report (Continued)

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. 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 14 May 2019 (Tuesday). 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.

Policy on Payment of Dividends

The Company adopted a policy on payment of dividends (the "Dividend Policy") on 9 November 2018 in compliance with E.1.5 of the CG Code with effect from 1 January 2019, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions and so on. The Board has complete discretion on whether to pay a dividend, subject to Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Hong Kong, 1 March 2019

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 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 2018 to 31 December 2018.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by 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 15 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 and Materiality Assessment

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

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
Government	— Comply with the laws — Proper tax payment — Promote regional economic development and employment	— On-site inspections and checks — Research and discussion through work conferences, work reports preparation and submission for approval — Annual reports — Website	— 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

Environmental, Social and Governance Report (Continued)

Stakeholders	Expectations	Engagement channels	Measures
Shareholders and Investors	— Low risk — Return on the investment — Information disclosure and transparency — Protection of interests and fair treatment of shareholders	— Annual general meeting and other shareholder meetings — Annual report, announcements	— 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
Employees	— Safeguard the rights and interests of employees — Working environment — Career development opportunities — Self-actualisation — Health and safety	— Trainings, seminars, briefing sessions — Cultural and sport activities — Newsletters — Intranet and emails	— 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
Customers	— Safe and high-quality products — Stable relationship — Information transparency — Integrity — Business ethics	— Website, brochures — Email and customer service hotline — Regular meeting	— Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements
Suppliers/Partners	— Long-term partnership — Honest cooperation — Fair, open — Information resources sharing — Risk reduction	— Business meetings, supplier conferences, phone calls, interviews — Regular meeting — Review and assessment — Tendering process	— 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

With these on-going dialogues, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The principle of materiality strengthens the Group's ESG reporting which means understanding the ESG issues that are important to the Group's business, informing the issue and key performance indicators (KPIs) to cover in the Report. The Group's approach to materiality in this Report is based on the best-practice recommendations of the ESG Reporting Guide and the GRI Guidelines.

Environmental, Social and Governance Report (Continued)

In 2018, the Group evaluated the importance of global sustainability challenges to the Group. As part of this exercise, internal and external stakeholders, including employees, consumers, distributors, investors, suppliers and the community, contributed their perspectives regarding ESG reporting and the broader ESG issues relevant to the Group. The assessment also considered ESG issues relevant to the Group's industry and operation locations and included the following steps:

Step 1: Identification — Industry Benchmarking

- Relevant ESG issues were identified based on feedback from investors, sustainability indices and the ESG reports of the Group's local and international industry peers.

- The materiality of each ESG issue was determined based on the frequency of its disclosure by selected peer companies.

Step 2: Prioritization — Stakeholder Engagement

- The Group engaged key stakeholders on ESG issues affecting the Group.

- Stakeholders were asked to rank each of the shortlisted ESG issues according to their view of its importance to the operation of the Group.

Step 3: Validation — Determining Material Issues

- The Group's management responded to conducted the range of ESG issues being reported to ensure the results of the materiality assessment were in line with and reflective of issues important to business development.

As a result of this process carried out in 2018, those important issues to the Group were discussed in this Report.

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.

Environmental, Social and Governance Report (Continued)

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 mobile sources. 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.

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 large increase in air pollutants emission in 2018 was mainly attributable to new purchase and use of a diesel-consuming forklift for the use of goods loading and carriage in PRC factory and an increase in sales of beauty products and beauty bags. The air pollutant emission during the reporting period is as follows:

Air Pollutants	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Nitrogen oxides (NO_x)	kg	381.51	0.75	**382.26**	**17.55**
Sulfur dioxide (SO_2)	kg	47.73	0.02	**47.75**	**0.65**
Particular matter (PM)	kg	0.46	0.06	**0.52**	**1.33**

Greenhouse Gas ("GHG") Emission

Climate change has become a major challenge to the world. The Group manages the carbon footprint by minimizing 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". The increase in GHG emission in 2018 was attributable to new purchase and use of a diesel-consuming forklift for the use of goods loading and carriage in PRC factory and an increase in sales of beauty products and beauty bags. During the reporting period, the emission of greenhouse gas is as follows:

GHG Emission[1]	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Scope 1[2]	tonnes of CO_2-e	6.92	3.25	**10.17**	**22.14**
Scope 2[3]	tonnes of CO_2-e	616.04	29.01	**645.05**	**508.04**
Total	tonnes of CO_2-e	622.96	32.26	**655.22**	**530.18**
Intensity	PRC: tonnes of CO_2-e/tonnes of production HK: tonnes of CO_2-e/m^2	**0.30**	**0.08**		**PRC: 0.36** **HK: 0.09**

[1] The calculation of the greenhouse gas emission is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.

[2] Scope 1: Direct emission from sources that are owned or controlled by the Group.

[3] Scope 2: Indirect emissions from purchased electricity consumed by the Group.

Environmental, Social and Governance Report (Continued)

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. The decrease in hazardous waste amount in 2018 was mainly attributable to the decrease in production of cleaning product.

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.

The wastes generated by the Group during the reporting period are as follows:

Waste Disposal	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Hazardous wastes	tonnes	0.10	—	**0.10**	**0.21**
Hazardous wastes produced intensity	tonnes/tonnes of production	0.00005	—	**0.00005**	**0.00015**
Non-hazardous wastes produced	tonnes	5.29	—	**5.29**	**N/A**[4]
Non-hazardous wastes produced intensity	tonnes/employee	0.05	—	**0.05**	**N/A**[4]

The Group put effort in recycling different waste materials. The increase in non-hazardous wastes recycling rate in 2018 was mainly attributable to the Group's effort on implementing waste-free initiatives in reducing wastes. The amount of non-hazardous waste recycled during the reporting period is as follows:

Non-hazardous wastes recycled	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Plastic and paper	kg	3,036	787	**3,823**	**942**
Metal	kg	1,765	—	**1,765**	**350**

[4] There was no record on non-hazardous wastes produced as 2017 was the first year that the Group published this report.

Environmental, Social and Governance Report (Continued)

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 expanded in last 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, 9,272m^3 of wastewater was treated and discharged according to the national safety standards.

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 have used the energy-efficient lights and grade 1 air-conditioners. Owing to the new purchase and use of a diesel-consuming forklift for the use of goods loading and carriage in PRC factory and an increase in sales of beauty products and beauty bags, the amount of total energy consumption increased accordingly in 2018. During the reporting period, the energy consumptions are as follows:

Energy	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Purchased electricity	kWh in '000s	915.98	56.88	**972.86**	**765.19**
Diesel	kWh in '000s	132.19	—	**132.19**	**—**
Petrol	kWh in '000s	28.22	10.67	**38.89**	**87.22**
Total energy consumption	kWh in '000s	1,076.39	67.55	**1,143.94**	852.41
Intensity	PRC: kWh in '000s/tonnes of production HK: kWh in '000s/m^2	**0.52**	**0.16**	**—**	**PRC: 0.58** **HK: 0.18**

Environmental, Social and Governance Report (Continued)

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 company. In this case, water consumption data is not available. However, we raise the awareness of employees about water saving through different channels. This year, the drop in water consumption and its intensity during 2018 was due to the Group's effort in conserving water with aforementioned water-saving strategies implemented. The water consumption during the reporting period is as follow:

Water	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Water consumption	m^3	10,626	N/A	**10,626**	**11,336**
Intensity	PRC: m^3/tonnes of production	0.49	N/A	**0.49**	**8.28**

Packaging Materials

The major packaging materials used in our manufacture business in the PRC are paper, metal and plastic. The large increase in packaging materials of paper and plastic in 2018 was mainly attributable to an increase in sales of beauty products and beauty bags. The consumption of those materials is summarised below.

Packaging materials	Unit	2018 PRC	2018 HK	2018 Total	2017 Total
Paper	tonnes	931.00	—	**931.00**	**484.60**
Plastic	tonnes	107.93	—	**107.93**	**76.30**
Metal	tonnes	44.26	—	**44.26**	**304.10**
Intensity	PRC: tonnes/tonnes of production	0.52	—	**0.52**	**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.

Environmental, Social and Governance Report (Continued)

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.

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 2018, 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.

Environmental, Social and Governance Report (Continued)

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.

In 2018, 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 (%)
By gender		
— Male	41.30	97.73
— Female	42.17	108.42
By employment category		
— Senior management	21.91	91.67
— Middle management	26.62	96.30
— General	47.58	109.00

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.

Environmental, Social and Governance Report (Continued)

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.

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.

Environmental, Social and Governance Report (Continued)

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.

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, 90% 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 HK$6,000 for flood in Chaonan District.

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Takbo Group Holdings Limited
(incorporated in the 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 64 to 125, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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
Impairment assessment of trade receivables Refer to note 4 and note 19 to the consolidated financial statements As at 31 December 2018, the Group had gross trade receivables of approximately HK$37.2 million (2017: HK$27.0 million) and provision for impairment of approximately HK$2.2 million (2017: HK$3.0 million). In general, the credit terms granted by the Group to the customers ranged between 30 to 120 days (2017: 30 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 credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's impairment assessment of the trade receivables as at 31 December 2018 included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

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 the 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 is 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (Continued)

As part of an audit in accordance with HKSAs, 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Wai Ching.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 March 2019

Consolidated Income Statement

For the Year ended 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
Revenue	*5*	**258,782**	179,369
Cost of sales	*8*	**(171,261)**	(113,422)
Gross profit		**87,521**	65,947
Other income	*6*	**617**	471
Other gains/(losses), net	*7*	**5,772**	(2,455)
Administrative expenses	*8*	**(30,151)**	(42,033)
Selling and distribution expenses	*8*	**(25,369)**	(12,300)
Operating profit		**38,390**	9,630
Finance income	*11*	**619**	99
Finance costs	*11*	**—**	(27)
Finance income, net	*11*	**619**	72
Profit before income tax		**39,009**	9,702
Income tax expense	*12*	**(6,760)**	(4,232)
Profit for the year attributable to owners of the Company		**32,249**	5,470
Earnings per share (in HK cents)	*13*	**8.1**	1.7

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 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**32,249**	5,470
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss		
Exchange differences on translation of foreign operation	**(806)**	985
Other comprehensive (loss)/income for the year	**(806)**	985
Total comprehensive income for the year	**31,443**	6,455
Total comprehensive income attributable to owners of the Company	**31,443**	6,455

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

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**25,549**	12,232
Intangible asset	*16*	**356**	516
Prepayments	*20*	**9,059**	4,791
Deferred income tax assets	*26*	**1,249**	1,658
		36,213	19,197
Current assets			
Inventories	*18*	**9,161**	8,809
Trade receivables	*19*	**35,004**	23,971
Prepayments, deposits and other receivables	*20*	**5,368**	4,262
Amount due from a related party	*31*	**332**	370
Financial assets at fair value through profit or loss	*27*	**—**	1,320
Cash and cash equivalents	*21*	**103,628**	96,412
		153,493	135,144
Total assets		**189,706**	154,341

Consolidated Balance Sheet (Continued)

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	*22*	**4,000**	4,000
Share premium	*22*	**56,188**	56,188
Other reserves	*23*	**3,454**	3,718
Retained earnings		**106,803**	75,096
Total equity		**170,445**	139,002
LIABILITIES			
Non-current liabilities			
Provision	*25*	**393**	393
Current liabilities			
Trade payables	*24*	**9,081**	7,132
Accruals, provisions and other payables	*25*	**7,882**	4,844
Amount due to a related party	*31*	**647**	535
Current income tax liabilities		**1,258**	2,435
		18,868	14,946
Total liabilities		**19,261**	15,339
Total equity and liabilities		**189,706**	154,341

The consolidated financial statements on pages 64 to 125 were approved by the Board of Directors on 1 March 2019 and were signed on its behalf.

Or Naam	**Chan Hoi Yan, Polly**
Director	*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 2018

	Attributable to owners of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Capital and other reserve** *(Note 23(a))* HK$'000	**Statutory reserve** *(Note 23(b))* HK$'000	**Exchange reserve** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000
Balances at 31 December 2016 and 1 January 2017	—	—	46	472	2,143	78,638	81,299
Profit for the year	—	—	—	—	—	5,470	5,470
Other comprehensive income	—	—	—	—	985	—	985
Total comprehensive income for the year	—	—	—	—	985	5,470	6,455
Dividend declared and settled	—	—	—	—	—	(8,940)	(8,940)
Issuance of shares upon capitalisation issues	3,000	(3,000)	—	—	—	—	—
Share issues under share offer	1,000	68,000	—	—	—	—	69,000
Listing expenses charged to share premium	—	(8,812)	—	—	—	—	(8,812)
Transfer to reserve	—	—	—	72	—	(72)	—
	4,000	56,188	—	72	—	(9,012)	51,248
Balances at 31 December 2017 and 1 January 2018	4,000	56,188	46	544	3,128	75,096	139,002
Profit for the year	—	—	—	—	—	32,249	32,249
Other comprehensive loss	—	—	—	—	(806)	—	(806)
Total comprehensive income for the year	—	—	—	—	(806)	32,249	31,443
Transfer to reserve	—	—	—	542	—	(542)	—
	—	—	—	542	—	(542)	—
Balances at 31 December 2018	4,000	56,188	46	1,086	2,322	106,803	170,445

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 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash generated from operations	28	**33,643**	2,416
Interest paid		**—**	(27)
Income tax paid		**(7,551)**	(3,054)
Net cash generated from/(used in) operating activities		**26,092**	(665)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(19,300)**	(11,294)
Purchase of intangible asset		**—**	(388)
Interest received		**619**	99
Repayments received from related parties		**—**	15,146
Net cash (used in)/generated from investing activities		**(18,681)**	3,563
Cash flows from financing activities			
Repayment of bank borrowings		**—**	(6,720)
Decrease in amounts with related parties		**—**	(1,702)
Proceeds from issuance of shares under share offer		**—**	69,000
Payment for listing expenses		**—**	(8,006)
Net cash generated from financing activities		**—**	52,572
Net increase in cash and cash equivalents		**7,411**	55,470
Cash and cash equivalents at the beginning of the financial year		**96,412**	41,054
Effect of exchange rate changes on cash and cash equivalents		**(195)**	(112)
Cash and cash equivalents at end of year	21	**103,628**	96,412

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

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 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 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 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.

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 HKFRSs and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure 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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

(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 2018:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendment to HKFRS 1	First time adoption of HKFRS
Amendment to HKAS 28	Investments in associates and joint ventures
Amendments to HKAS 40	Transfers of investment property
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarification to HKFRS 15
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration

The adoption of these standards and amendments did not have any impact on the amounts recognised in prior periods. Most of the standards and amendments will also not affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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.

Annual Improvements Project	Annual Improvements 2015-2017 Cycle (amendments)	1 January 2019
HKAS 19	Plan Amendment, Curtailment or Settlement (amendments)	1 January 2019
HKAS 28	Long-term Interests in Associates and Joint Ventures (amendments)	1 January 2019
HKFRS 9	Prepayment Features with Negative Compensation (amendments)	1 January 2019
HKFRS 16 *(Note a)*	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
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: The Group is a lessee of certain office and factory premises, 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$24,741,000 as at 31 December 2018 (2017: HK$27,824,000).

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 a significant impact on the Group's results and 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 Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial instruments ("HKFRS 9") and HKFRS 15 Revenue from contracts with customers ("HKFRS 15") on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Adoption of HKFRS 9

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories . The adoption of HKFRS 9 did not have material impact on the classification and measurement of the Group's financial assets and liabilities.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policies (Continued)

(a) Adoption of HKFRS 9 (Continued)

(ii) Impairment of financial assets

The Group has two main types of financial assets that are subject to HKFRS 9's new expected credit loss model:

— Trade receivables; and
— Other financial assets measured at amortised costs (including cash and cash equivalents, other receivables and amounts due from related parties)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follows:

(a) Trade receivables

The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group has assessed the expected credit loss model applied to the trade receivables as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

The adoption of expected credit loss model under HKFRS 9 did not have material impact on allowance for impairment of trade receivables calculated under HKAS 39.

(b) Other financial assets measured at amortised cost

Other financial assets at amortised cost include other receivables and amounts due from related parties. The Group has applied the expected credit loss model to other receivables and amounts due from related parties as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policies (Continued)

(b) Adoption of HKFRS 15

HKFRS 15 establishes a comprehensive framework for recognizing revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts. The Group has elected to use the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

(i) Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

— When the customer simultaneously receives and consumes the benefits provided by the Group's performance, as the Group performs;

— When the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— When the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the contract terms and the Group's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs. The adoption of HKFRS 15 does not have a significant impact on the Group's financial position and results of operation for the period. There is also no material impact to the Group's retained earnings as at 1 January 2018.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.2 Changes in accounting policies (Continued)

(b) Adoption of HKFRS 15 (Continued)

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

	As at 1 January 2018		
	As previously stated HK$'000	**Reclassification under HKFRS 15 HK$'000**	**Restated HK$'000**
Consolidated Balance Sheet (extract)			
Current liabilities:			
Accruals, provision and other payables	4,844	(490)	4,354
Accruals, provision and other payables — contract liabilities	—	490	490
	4,844	—	4,844

2.3 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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.3 Principles of consolidation (Continued)

Subsidiaries (Continued)

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.

2.4 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.

2.5 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.

2.6 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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

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.

(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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.7 Property, plant and equipment

2.7.1 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.

2.7.2 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.

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 terms, 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/(losses), net" in the consolidated income statement.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.8 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.

2.9 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Non-financial 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.

2.10 Investments and other financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

— those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

— those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

(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 ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

(c) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in consolidated income statement as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 19 for further details.

(e) Accounting policies applied until 31 December 2017

(I) 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 assets.

(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".

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

(e) Accounting policies applied until 31 December 2017 (Continued)

(II) 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.

(III) 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 gains/(losses), 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.

(IV) Impairment

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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.10 Investments and other financial assets (Continued)

(e) Accounting policies applied until 31 December 2017 (Continued)

(IV) Impairment (Continued)

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).

2.11 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.

2.12 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.

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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.13 Trade and other receivables (Continued)

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

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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

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.

(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.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.20 Employee benefits (Continued)

(c) Long service payments (Continued)

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 consolidated income statement.

(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

(a) Sale of beauty products and bags

The Group manufactures and sells a range of beauty products and bags to customers. Revenue from the sales and distribution of products is recognised when control of the products has transferred, being at the point the products are delivered to the customer's premise and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of discounts, returns and value added taxes.

A receivable is recognised when the products are delivered and the customers accept the products, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sample income

Sample income is recognised when control of the products has transferred, being at the point the products are delivered to the customer's premise and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the products are delivered and the customers accept the products, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.23 Earnings per share

(i) Basic 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, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Notes to the Consolidated Financial Statements (Continued)

2 Summary of Significant Accounting Policies (Continued)

2.23 Earnings per share (Continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.24 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 30(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.

2.25 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.

2.26 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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.

Notes to the Consolidated Financial Statements (Continued)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

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.

(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$13,000 (2017: HK$21,000) higher/lower, mainly as a result of foreign exchange gains (2017: foreign exchange gains) 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:

	2018 **HK$'000**	2017 HK$'000
Assets		
US$	**100,012**	51,682
RMB	**16,933**	4,634
Others	**55**	47
	117,000	56,363
Liabilities		
US$	**1,388**	(1,631)
RMB	**9,536**	(4,086)
	10,924	(5,717)

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 cash at bank and interest-bearing bank deposits. 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$946,000 (2017: HK$939,000) 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. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

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 86.9% and 41.2% (2017: 92.6% and 77.1%), 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 the below. 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 the below.

Notes to the Consolidated Financial Statements (Continued)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

The Group classifies its trade receivables by nature of customer accounts. These include overseas customers and PRC customers.

	Lifetime expected credit loss rate	Gross carrying amount HK$'000	Lifetime expected credit loss HK$'000	Net carrying amount HK$'000
At 31 December 2018				
Overseas customers				
Provision on collective basis	0%	34,539	—	34,539
PRC customers				
Provision on individual basis	100%	2,184	2,184	—
Provision on collective basis	0%	465	—	465
		37,188	2,184	35,004

The credit quality of the amounts due from related parties and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2018.

(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.

Notes to the Consolidated Financial Statements (Continued)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

Contractual maturities of financial liabilities	On demand	Within 1 year	Total contractual cash flow	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018				
Trade payables	—	9,081	9,081	9,081
Accruals and other payables	—	1,910	1,910	1,910
Amounts due to related parties	—	647	647	647
	—	11,638	11,638	11,638
As at 31 December 2017				
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

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:

	2018 HK$'000	2017 HK$'000
Total borrowings	—	—
Less: cash and cash equivalents *(Note 21)*	(103,628)	(96,412)
Net cash	(103,628)	(96,412)
Total equity	170,445	139,002
Gearing ratio	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.

	Note	2018 HK$'000	2017 HK$'000
Level 3			
Recurring fair value measurements			
Financial assets at fair value through profit or loss	*27*	—	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 (ii) 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.

Notes to the Consolidated Financial Statements (Continued)

3 Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(i) Fair value hierarchy (Continued)

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.

(ii) Fair value measurements using significant unobservable inputs (level 3)

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

	2018 **HK$'000**	2017 HK$'000
Opening balance	**1,320**	—
Acquisitions	**4,800**	1,680
Disposals	**(6,120)**	(448)
Exchange differences	**—**	88
Closing balance	**—**	1,320

The above 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.

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 loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 3.1(c).

(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:

	2018 HK$'000	2017 HK$'000
Revenue		
Sales of beauty products	193,375	111,087
Sales of beauty bags	65,407	68,282
	258,782	179,369

(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 strategic steering committee, consisting of 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 chief operating decision-maker are as follows:

	Design, development, manufacture and sale of beauty products HK$'000	Design, development and sale of beauty bags HK$'000	Total HK$'000
For the year ended 31 December 2018			
Segment revenue from external customers	**193,375**	**65,407**	**258,782**
Timing of revenue recognition:			
At a point in time	**193,375**	**65,407**	**258,782**
Cost of sales	**(125,229)**	**(46,032)**	**(171,261)**
Gross profit	**68,146**	**19,375**	**87,521**
Other income			**617**
Other gains, net			**5,772**
Administrative expenses			**(30,151)**
Selling and distribution expenses			**(25,369)**
Finance income, net			**619**
Profit before income tax			**39,009**
Income tax expense			**(6,760)**
Profit for the year			**32,249**
For the year ended 31 December 2017			
Segment revenue from external customers	111,087	68,282	179,369
Timing of revenue recognition:			
At a point in time	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 and distribution expenses			(12,300)
Finance income, net			72
Profit before income tax			9,702
Income tax expense			(4,232)
Profit for the year			5,470

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:

	2018 HK$'000	2017 HK$'000
Customer A (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	**48,233**	39,540
Customer B (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	**40,411**	35,531
Customer C (Design, development, manufacture and sale of beauty products)	**75,597**	27,572
Customer D (Design, development and sale of beauty bags)	**44,226**	50,284

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$2,439,000 (2017: HK$732,000) and the PRC amounted to approximately HK$32,525,000 (2017: HK$16,807,000).

(c) Group information

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

	2018 HK$'000	2017 HK$'000
United States of America ("USA")	**247,165**	164,604
PRC	**598**	4,094
United Arab Emirates ("UAE")	**5,294**	5,530
United Kingdom	**2,877**	2,665
Other countries	**2,848**	2,476
	258,782	179,369

Notes to the Consolidated Financial Statements (Continued)

5 Revenue and Segment Information (Continued)

(d) Liability related to contracts with customers

As at 31 December 2018, contract liabilities included in accruals, provision and other payables amounting to HK$1,443,000.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2018 HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	490

6 Other Income

	2018 HK$'000	2017 HK$'000
Sample income	617	471

7 Other Gains/(Losses), Net

	2018 HK$'000	2017 HK$'000
Exchange gains/(losses), net	5,772	(2,455)

Notes to the Consolidated Financial Statements (Continued)

8 Expenses by Nature

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

	2018 HK$'000	2017 HK$'000
Raw materials and consumables used	153,617	101,935
Changes in inventories of finished goods and work in progress	(2,494)	(3,334)
Cost of inventory	151,123	98,601
Amortisation of intangible asset *(Note 16)*	154	65
Auditor's remuneration		
— Audit services	900	868
— Non-audit services	34	820
— Other	—	14
Employee benefits expenses, excluding benefits and interests of directors *(Note 9)*	10,305	9,152
Directors' emoluments *(Note 10)*	5,756	5,105
Manpower service costs	14,813	8,444
Depreciation of property, plant and equipment *(Note 15)*	1,102	1,568
Inspection fees	3,852	2,194
Operating lease rentals in respect of leased premises	1,983	1,612
Advertising and marketing expenses	2,305	1,319
Travelling expenses and entertainment expense	2,632	1,603
Freight and transportation	13,692	7,355
Utility expenses	1,023	885
Legal and professional fees	2,597	1,162
Expenses incurred in connection with the Company's listing	—	15,653
(Reverse)/provision of impairment losses on trade receivables	(775)	2,797
Others	15,285	8,538
Total cost of sales, selling and distribution expenses and administrative expenses	226,781	167,755

Notes to the Consolidated Financial Statements (Continued)

9 Employee Benefit Expenses, Excluding Benefits and Interests of Directors

	2018	2017
	HK$'000	HK$'000
Salaries, bonuses and allowances	**8,963**	7,498
Pension costs-defined contribution plan *(Note)*	**688**	978
Other employee benefits	**654**	676
	10,305	9,152

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 for 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 schemes were approximately HK$742,000 (2017: HK$1,032,000).

Notes to the Consolidated Financial Statements (Continued)

10 Benefits and Interests of Directors

(a) Directors' emoluments

For the year ended 31 December 2018

Name	Fee HK$'000	Salaries HK$'000	Other allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Defined contribution pension costs HK$'000	Total HK$'000
Executive directors						
Mr. Or Naam, Chief Executive Officer	—	1,235	1,487	—	18	2,740
Ms. Chan	—	1,105	—	—	18	1,123
Mr. Or Huen	—	1,155	—	—	18	1,173
Independent non-executive directors						
Mr. Tan Chong Huat	240	—	—	—	—	240
Mr. Sung Chi Keung	240	—	—	—	—	240
Mr. Wong, Irving Holmes Weng Hoong	240	—	—	—	—	240
	720	3,495	1,487	—	54	5,756

For the year ended 31 December 2017

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

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2017: same).

Notes to the Consolidated Financial Statements (Continued)

10 Benefits and Interests of Directors (Continued)

(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 (2017: 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 (2017: 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 (2017: nil).

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

Save as disclosed in Note 31, 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 (2017: nil).

(f) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2017: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2017: 2) individuals during the year are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, other allowances and benefits	**1,399**	1,310
Pension cost — defined contribution plan	**35**	38
	1,434	1,348

Notes to the Consolidated Financial Statements (Continued)

10 Benefits and Interests of Directors (Continued)

(f) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
Nil to HK$500,000	**1**	1
HK$500,001 to HK$1,000,000	**1**	1
HK$1,500,000 to HK$2,000,000	**—**	—

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, Net

	2018	2017
	HK$'000	HK$'000
Finance income		
Bank interest income	**619**	99
Finance costs		
Interest expense on bank borrowings	**—**	(27)
	—	(27)
Finance income, net	**619**	72

12 Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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% (2017: 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 (2017: nil).

Notes to the Consolidated Financial Statements (Continued)

12 Income Tax Expense (Continued)

Income tax expense charged to the consolidated income statement represents:

	2018 **HK$'000**	2017 HK$'000
Current tax	**6,282**	5,113
Deferred income tax *(Note 26)*	**400**	(912)
Under provision in prior year	**78**	31
	6,760	4,232

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:

	2018 **HK$'000**	2017 HK$'000
Profit before income tax	**39,009**	9,702
Tax calculated at a tax rate of 16.5% (2017: 16.5%)	**6,436**	1,601
Effect of different taxation rates in other country	**610**	2
Income not subject to tax	**(202)**	(16)
Expenses not deductible for tax purpose	**3**	2,614
Under provision in prior year	**78**	31
Tax concession under two-tiered profits tax rates regime	**(165)**	—
Income tax expense	**6,760**	4,232

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

	2018	2017
Profit attributable to owners of the Company (in HK$'000)	**32,249**	5,470
Weighted average number of ordinary shares for the purpose of basic earnings per share	**400,000,000**	318,082,192
Basic and diluted earnings per share attributable to the ordinary equity holders of the Company (in HK cents)	**8.1**	1.7

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 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 of entity	Place of incorporation and date of incorporation	Principal activities	Issued and paid up capital	Attributable effective equity interest to the Company as at 31 December 2018	2017
Directly held					
Alpha Business Global Limited	British Virgin Islands 10 January 2017	Investment holding	US$1	**100%**	100%
Indirectly held					
Full Colour Development Limited	British Virgin Islands 4 January 2017	Investment holding	US$1	**100%**	100%
Dawning Beauty Limited	British Virgin Islands 30 August 2016	Investment holding	US$1	**100%**	100%
Takbo Limited ("Takbo")	Hong Kong 20 December 1994	Design, development and sale of beauty products and beauty bags	HK$10,000	**100%**	100%
B&B (H.K) Limited ("B&B")	Hong Kong 9 April 1999	Investment holding	HK$2	**100%**	100%
Cosbe Laboratory Inc. (廣東一芙化妝品有限公司)	PRC 28 June 2002	Design, development, manufacture and sale of beauty products	2018: RMB32,000,000 (2017: RMB16,000,000)	**100%**	100%

Notes to the Consolidated Financial Statements (Continued)

15 Property, Plant and Equipment

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
As at 1 January 2017						
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
Year ended 31 December 2018						
Opening net book amount	**135**	**1,817**	**2,262**	**436**	**7,582**	**12,232**
Exchange differences	**—**	**(48)**	**(31)**	**(6)**	**(790)**	**(875)**
Additions	**1,696**	**1,670**	**640**	**37**	**11,251**	**15,294**
Depreciation charge *(Note 8)*	**(207)**	**(527)**	**(243)**	**(125)**	**—**	**(1,102)**
Closing net book amount	**1,624**	**2,912**	**2,628**	**342**	**18,043**	**25,549**
As at 31 December 2018						
Cost	**5,681**	**13,218**	**11,114**	**3,214**	**18,043**	**51,270**
Accumulated depreciation	**(4,057)**	**(10,306)**	**(8,486)**	**(2,872)**	**—**	**(25,721)**
Net book amount	**1,624**	**2,912**	**2,628**	**342**	**18,043**	**25,549**

During the year, depreciation expenses of approximately HK$420,000 (2017: HK$642,000) has been charged in "cost of sales" and approximately HK$682,000 (2017: HK$926,000) have been charged in "administrative expenses".

During the year, no borrowing cost has been capitalised (2017: HK$30,000) on qualifying assets.

Notes to the Consolidated Financial Statements (Continued)

16 Intangible Asset

	Computer software HK$'000
As at 1 January 2017	
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 *(Note 8)*	(65)
Closing net book amount	516
As at 31 December 2017	
Cost	768
Accumulated amortisation	(252)
Net book amount	516
Year ended 31 December 2018	
Opening net book amount	516
Exchange differences	(6)
Additions	—
Amortisation *(Note 8)*	(154)
Closing net book amount	356
As at 31 December 2018	
Cost	755
Accumulated amortisation	(399)
Net book amount	356

During the year, amortisation expenses of the Group's computer software of approximately HK$154,000 (2017: HK$65,000) have been charged to "administrative expenses".

Notes to the Consolidated Financial Statements (Continued)

17 Financial Instruments by Category

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at fair value through profit or loss	—	1,320
Loans and receivables		
Trade receivables	35,004	23,971
Deposits and other receivables	1,057	147
Amounts due from related parties	332	370
Cash and cash equivalents	103,628	96,412
	140,021	120,900
	140,021	122,220
Financial liabilities		
Other financial liabilities at amortised cost		
Trade payables	9,081	7,132
Accruals and other payables	1,910	1,556
Amounts due to related parties	647	535
	11,638	9,223

18 Inventories

	2018 HK$'000	2017 HK$'000
Raw materials	369	2,486
Work in progress	710	1,830
Finished goods	8,082	4,493
	9,161	8,809

The cost of inventories included in cost of sales during the year amounted to approximately HK$151,123,000 (2017: HK$98,601,000).

Notes to the Consolidated Financial Statements (Continued)

19 Trade Receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**37,188**	26,967
Less: loss allowance	**(2,184)**	(2,996)
	35,004	23,971

Trade receivables represent income receivable from customers. The credit terms granted by the Group generally ranged between 30 to 120 days (2017: 30 to 90 days).

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

	2018 HK$'000	2017 HK$'000
1 to 30 days	**3,573**	5,037
31 to 60 days	**5,904**	2,752
61 to 90 days	**1,737**	3,359
91 to 120 days	**12,267**	3,340
121 to 150 days	**10,263**	4,457
151 to 180 days	**1,086**	2,957
Over 181 days	**174**	5,065
	35,004	26,967

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the aging from billing. See Note 3.1(c) for further information about expected credit loss provision.

Notes to the Consolidated Financial Statements (Continued)

19 Trade Receivables (Continued)

Impairment losses are recognised in consolidated income statement within “administrative expenses”. See note 2.10(d) for information about how impairment losses are calculated.

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

	2018 **HK$’000**	2017 HK$’000
At 1 January	**2,996**	—
(Reversal of provisions)/provision for impairment recognised during the year	**(775)**	2,797
Exchange differences	**(37)**	199
At 31 December	**2,184**	2,996

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:

	2018 **HK$’000**	2017 HK$’000
US$	**34,539**	23,662
RMB	**465**	3,305
	35,004	26,967

Notes to the Consolidated Financial Statements (Continued)

20 Prepayments, Deposits and Other Receivables

	2018 HK$'000	2017 HK$'000
Rental, utilities and other deposits	94	94
Prepayments	10,791	7,098
Other receivables	3,542	1,861
	14,427	9,053
Less non-current portion:		
Prepayments	(9,059)	(4,791)
	5,368	4,262

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

	2018 HK$'000	2017 HK$'000
HK$	281	518
US$	939	442
RMB	13,207	8,093
	14,427	9,053

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

	2018 HK$'000	2017 HK$'000
Cash on hand	**36**	34
Cash at bank	**27,712**	67,003
Short-term bank deposits	**75,880**	29,375
Cash and cash equivalents	**103,628**	96,412

Cash and cash equivalents are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**25,505**	65,753
US$	**65,474**	28,014
RMB	**12,594**	2,598
Others	**55**	47
	103,628	96,412

22 Share Capital and Share Premium

Authorised share capital	**Number of Ordinary share**	**Nominal value of ordinary share** HK$'000
As at 8 February 2017 (Date of incorporation)	38,000,000	380
Increase in authorised share capital *(Note b)*	9,962,000,000	99,620
As at 31 December 2017 and 2018	10,000,000,000	100,000

Notes to the Consolidated Financial Statements (Continued)

22 Share Capital and Share Premium (Continued)

Issued and fully paid	Number of Ordinary share	Nominal value of ordinary share HK$'000	Share premium HK$'000
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 and 2018	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, conditional on the share premium account of the Company being credited as a result of issuance of ordinary shares (Note e), 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 Other Reserves

(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 in relation to the Listing of the Company.

(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:

	2018	2017
	HK$'000	HK$'000
1 to 30 days	**4,256**	2,262
31 to 60 days	**2,452**	861
61 to 90 days	**636**	275
91 to 120 days	**254**	1,440
121 to 180 days	**142**	2,004
181 to 365 days	**890**	105
Over 365 days	**451**	185
	9,081	7,132

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

	2018	2017
	HK$'000	HK$'000
US$	**732**	1,038
HK$	**3**	—
RMB	**8,346**	6,094
	9,081	7,132

Notes to the Consolidated Financial Statements (Continued)

25 Accruals, Provisions and Other Payables

	2018 HK$'000	2017 HK$'000
Non-current portion		
Provision for long service payments	**393**	393
Current portion		
Contract liabilities/receipts in advance	**1,443**	490
Provisions and accrued expenses	**4,447**	2,679
Accrued listing expenses	**78**	78
Other payables	**1,914**	1,597
	7,882	4,844

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

	2018 HK$'000	2017 HK$'000
HK$	**1,689**	2,000
US$	**1,443**	2,610
RMB	**5,143**	627
	8,275	5,237

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

26 Deferred Income Tax

The analysis of deferred income tax assets is as follows:

	2018 HK$'000	2017 HK$'000
Deferred income tax assets — to be recovered after more than 12 months	**1,249**	1,658

Notes to the Consolidated Financial Statements (Continued)

26 Deferred Income Tax (Continued)

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

	2018 HK$'000	2017 HK$'000
At 1 January	**1,658**	696
Recognised in the consolidated income statement *(Note 12)*	**(400)**	912
Exchange differences	**(9)**	50
Deferred income tax assets	**1,249**	1,658

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:

	Decelerated tax depreciation HK$'000	Provisions HK$'000	Total HK$'000
As at 1 January 2017	335	361	696
Credited to the consolidated income statement	(26)	938	912
Exchange differences	—	50	50
As at 31 December 2017 and 1 January 2018	309	1,349	1,658
Changed to the consolidated income statement	(257)	(143)	(400)
Exchange differences	—	(9)	(9)
As at 31 December 2018	52	1,197	1,249

As at the end of the year, deferred income tax liabilities of approximately HK$1,000,000 (2017: HK$459,000) 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$10,002,000 (2017: HK$4,588,000). The Group is able to control the timing of the reversal of the temporary differences and its is probable that no material temporary differences will be reversed in the foreseeable future.

27 Financial Asset at Fair Value Through Profit or Loss

	2018 HK$'000	2017 HK$'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).

Notes to the Consolidated Financial Statements (Continued)

28 Cash Generated from Operations

	2018 HK$'000	2017 HK$'000
Profit before income tax	**39,009**	9,702
Adjustments for:		
Depreciation of property, plant and equipment	**1,102**	1,568
Amortisation of intangible asset	**154**	65
(Reversal)/Impairment of receivables	**(775)**	2,797
Finance income, net	**(619)**	(72)
Foreign exchange difference on operating activities	**596**	740
Operating profit before working capital changes	**39,467**	14,800
Changes in working capital:		
Inventories	**(320)**	(2,799)
Trade receivables	**(10,213)**	(14,183)
Prepayments, deposits and other receivables	**(883)**	2,081
Related companies balances	**155**	460
Financial assets at fair value through profit or loss	**1,320**	(1,232)
Trade payables	**1,385**	2,461
Accruals, provisions and other payables	**2,732**	828
Cash generated from operations	**33,643**	2,416

Reconciliation of liabilities arising from financing activities:

There is no net debt movement during the year ended 31 December 2018.

For the year ended 31 December 2017

			Non-cash changes		
	1 January 2017 HK$'000	**Cash flows** HK$'000	**Net settlement of the balances between the related parties and the Group** HK$'000	**Foreign exchange movement** HK$'000	**31 December 2017** 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)

28 Cash Generated from Operations (Continued)

Non-cash transactions:

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.

29 Contingencies

As at the end of the year, the Group did not have any significant contingent liabilities (2017: same).

30 Commitments

(a) Capital commitments

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

	2018 **HK$'000**	2017 HK$'000
Property, plant and equipment	**8,563**	8,213

(b) Non-cancellable operating leases

As a lessee

As at the end of the year, the Group leases office, factory and residential premises under non-cancellable operating lease agreements with related companies. The leases terms are between 2 to 10 years (2017: 3 to 10 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:

	2018 **HK$'000**	2017 HK$'000
No later than one year	**4,589**	4,259
Later than one year and no later than five years	**11,290**	13,136
Later than five years	**8,862**	10,429
	24,741	27,824

Notes to the Consolidated Financial Statements (Continued)

31 Related Party Transactions

The Group is controlled by Classic Charm Investments Limited (incorporated in British Virgin Islands), which is the ultimate holding company of the Group and owns 75% of the Company's shares. The remaining 25% of the shares are widely held. The ultimate controlling parties 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
Sky Choice Development Limited	Controlled by Mr. Or Naam and Ms. Chu
Smart Path Development Limited	Controlled by Mr. Or Naam and Ms. Chan
Shantou Baoma Processing Complex Company Limited	Controlled by Ms. Chu and Mr. Or Tak Ming, spouse of Ms. Chu Siu Fong

Other than those transactions and balances disclosed elsewhere in these 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:

	2018 **HK$'000**	2017 HK$'000
Continuing transactions:		
Shantou Baoma Processing Complex Company Limited		
— Purchases	**10,785**	12,924
— Utility expenses	**817**	603
— Rental expenses	**2,043**	1,062
Sky Choice Development Limited		
— Rental expenses	**1,062**	877
Smart Path Development Limited		
— Rental expenses	**1,200**	1,200

Notes to the Consolidated Financial Statements (Continued)

31 Related Party Transactions (Continued)

(a) Transactions with related parties (Continued)

All of the above transactions with related parties were conducted 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 Executive 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:

	2018	2017
	HK$'000	HK$'000
Salaries and bonuses	**3,495**	3,488
Other allowances and benefits in kind	**1,487**	1,434
Defined contribution pension costs	**54**	54
	5,036	4,976

(c) Amount due from a related party

	2018	2017
	HK$'000	HK$'000
Amount due from a related company		
— Shantou Baoma Processing Complex Company Limited *(Note i)*	**332**	370

As at the end of the year, there was no impairment for the amount due from a related party, as the amount have not past due and they have no history of default in payment (2017:nil).

Note:

(i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements (Continued)

31 Related Party Transactions (Continued)

(c) Amount due from a related party (Continued)

The carrying amount due from a related company approximate their fair values. The balances are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
RMB	**332**	370
	332	370

(d) Amount due to a related party

	As at 31 December	
	2018 **HK$'000**	2017 HK$'000
Amount due to a related company — Shantou Baoma Processing Complex Company Limited *(Note i)*	**647**	535

Note:

(i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.

The carrying amount due to a related company approximate their fair values. The balances are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
US$	**647**	535
	647	535

32 Dividend

No dividend has been paid or declared by the Company during the year ended 31 December 2018 (2017: from the date of incorporate 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)

33 Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Investment in a subsidiary		**84,836**	84,836
Current assets			
Amounts due from subsidiaries		**19,110**	10
Cash and cash equivalents		**23,443**	62,908
		42,553	62,918
Total assets		**127,389**	147,754
EQUITY			
Equity attributable to owners of the Company			
Share capital	*22*	**4,000**	4,000
Share premium	*(a)*	**141,034**	141,034
Accumulated losses	*(a)*	**(17,726)**	(18,003)
Total equity		**127,308**	127,031
Current liabilities			
Amounts due to subsidiaries		**3**	20,645
Accruals		**78**	78
Total liabilities		**81**	20,723
Total equity and liabilities		**127,389**	147,754

The balance sheet of the Company was approved by the Board of Directors on 1 March 2019 and was signed on its behalf.

Or Naam
Director

Chan Hoi Yan, Polly
Director

Notes to the Consolidated Financial Statements (Continued)

33 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
As at 8 February 2017 (Date of incorporation)	—	—	—
Issuance of shares pursuant to the reorganisation *(Note i)*	84,846	—	84,846
Issuance of shares pursuant to capitalisation *(note 22)*	(3,000)	—	(3,000)
Share issues under share offer *(note 22)*	68,000	—	68,000
Listing expenses charged to share premium *(note 22)*	(8,812)	—	(8,812)
Loss for the period	—	(18,003)	(18,003)
As at 31 December 2017	141,034	(18,003)	123,031
Profit for the year	—	277	277
As at 31 December 2018	141,034	(17,726)	123,308

Note (i): The investment in a subsidiary was accounted for using the net asset value at the date of the reorganisation. 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.

Four Years Financial Summary

RESULTS	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**258,782**	179,369	165,098	170,807
Profit before income tax	**39,009**	9,702	17,130	15,812
Income tax expenses	**(6,760)**	(4,232)	(3,470)	(2,929)
Profit attributable to the owners of the Company for the year	**32,249**	5,470	13,660	12,883
Total comprehensive income attributable to the owners of the Company for the year	**31,443**	6,455	12,361	12,883
Total assets	**189,706**	154,341	147,959	127,512
Total liabilities	**19,261**	15,339	66,660	58,574
Net assets	**170,445**	139,002	81,299	68,938
Equity attributable to owners of the Company	**170,445**	139,002	81,299	68,938