SLING GROUP HOLDINGS LIMITED
森浩集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 8285

2018
ANNUAL REPORT

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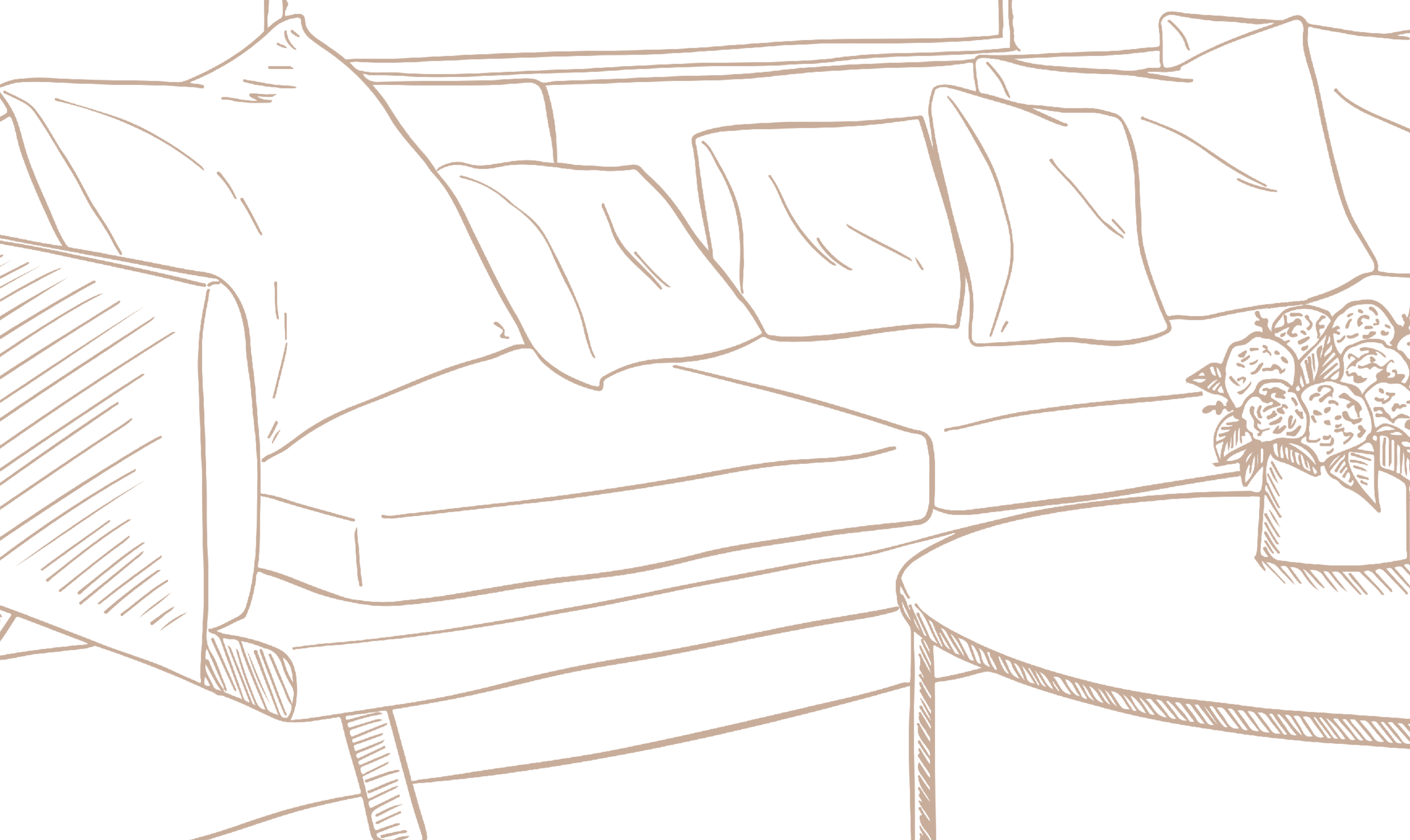
*This report, for which the directors (the "**Directors**") of Sling Group Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



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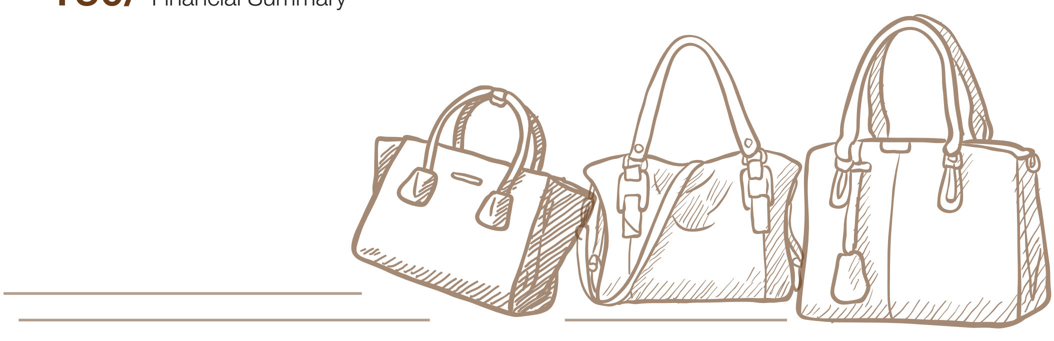


Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yau Frederick Heng Chung *(Chairman)*
Mr. Lee Tat Fai Brian *(Chief Executive Officer)*
Mr. Yip Chun Wai *(Chief Financial Officer)*

Non-executive Directors

Mr. Yau Sonny Tai Nin
Mr. Yau Tai Leung Sammy

Independent Non-executive Directors

Mr. Won Chik Kee
Mr. Feng Dai
Ms. Sit Ting Fong (appointed on 31 January 2019)
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)

AUDIT COMMITTEE

Mr. Won Chik Kee *(Chairman)*
Mr. Feng Dai
Ms. Sit Ting Fong (appointed on 31 January 2019)
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)

REMUNERATION COMMITTEE

Mr. Feng Dai *(Chairman)*
Mr. Won Chik Kee
Ms. Sit Ting Fong (appointed on 31 January 2019)
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)

NOMINATION COMMITTEE

Ms. Sit Ting Fong *(Chairlady)*
(appointed on 31 January 2019)
Mr. Won Chik Kee
Mr. Feng Dai
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)

COMPLIANCE OFFICER

Mr. Yau Frederick Heng Chung

AUTHORISED REPRESENTATIVES

Mr. Yau Frederick Heng Chung
Ms. Leung Sau Fong

AUDITORS

Grant Thornton Hong Kong Limited

Level 12
28 Hennessy Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1, 21st Floor, Yen Sheng Centre
64 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

COMPLIANCE ADVISER

Kingsway Capital Limited

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Corporate Information (Continued)

COMPANY SECRETARY

Ms. Leung Sau Fong

STOCK CODE

8285

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House — 3rd Floor
24 Shedden Road, George Town
Grand Cayman KY1-1110
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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

24/F, Bank of China Tower
1 Garden Road
Hong Kong

Standard Chartered Bank (Hong Kong) Limited

3/F, Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

WEBSITE

www.sling-inc.com.hk

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Sling Group Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively called the "Group") for the year ended 31 December, 2018.

2018 was a challenging year for the Group. We have witnessed a changing buying behavior of the consumers in China. On top of it, the US-China trade war which started in the second half of 2018 has created more uncertainty in the market and led to an economic slowdown. Consumers became more rational on their spending and, as a result, we, a company focuses in the online middle-end women's handbag market in China, have suffered in performance.

Looking forward, we believe we have a sound strategy to improve our performance. We will continue to focus on developing well-designed and quality products at affordable prices under the two brands: i) ELLE, our licensed brand; and ii) Jessie & Jane, our own brand. At the same time, we are reducing reliance on the No. 1 B2C e-commerce platform, by strengthening our collaborations with other existing major online platforms in China. In terms of marketing, we will continue to focus our efforts on social media. We are also expanding our way of marketing our products thru live blogging and short videos. In the near term, we believe that the China economy will remain fragile. However, with recent signs that US-China trade tension is de-escalating, and that the Chinese Government is introducing policies to improve liquidity, we are cautiously optimistic about the Group's performance.

Last but not least, on behalf of the Board, I would like to express my appreciation to our management and staff for their continued dedication and commitment. I would also like to express my heartfelt gratitude to all of our business partners, customers and shareholders for their unwavering support. I am confident that we will be able to create greater value for our customers and shareholders.

Yau Frederick Heng Chung
Chairman

Hong Kong, 21 March 2019

Management's Discussion and Analysis

BUSINESS REVIEW

Despite the Group has executed the business as planned, the result has not been satisfactory. The Group recorded a revenue of RMB141.1 million which represents the decrease by 32.5% as compared to the same period of last year. The main reason for such decrease was attributable to the revenue drop in online retail sales by 37.4%, offline retail sales by 62.6%, and wholesale to offline retailers by 32.3%. The revenue drop among the first quarter, second quarter, third quarter and fourth quarter were approximately 26.3%, 24.9%, 24.6%, and 51.1%.

Since the beginning of 2018, the demands for women's handbags have been weak arising from a number of market factors. First of all, the consumers in China tend to either purchase goods at lower prices or upgrade their purchase with more emphasis on style and individual characteristics. The brand products in the middle range have been affected. Secondly, the recent US-China trade war starting in the second half of 2018 has dampened the consumer sentiment in China and raised uncertainty to the consumer market.

Among the sale channels, the online retail sales witnessed the highest revenue drop. During the year, B2C e-commerce platform operators in China have shifted their focus to luxury and big ticket items. The online free traffic has been reduced. To cope with the changes, the Group has allocated more marketing resources in online sale platforms and multimedia. Concerted marketing effort was aimed at various marketing events during the high sale season. The Group participated in Paris Fashion Show in October 2018 to gain more exposure on Jessie & Jane brand. To ride on the consumers' preference, the Group has increased the effort in the design of handbags to fit with the market trend and further enhance product quality.

The revenue in offline retail sales dropped as the Group has executed the business plan to streamline directly operated offline retail points and transfer some stores to third party retailers. The Group's self-operated stores have dropped to 3 from 5. The business risk is reduced accordingly. The effect of lower operating expenses was achieved and the impact on bottom line is low. These stores remain to be important as they serve as display and allow consumers to gain product experience.

Wholesale to offline retailers has performed below our expectation in 2018 with 32.3% decline compared to the same period of last year. The offline retail points operated by third party retailers decreased from 105 to 90 owing to worse-than-expected sale performance. The number of third party offline retailers reduced from 42 to 34. Third party retailers have been restrained to add store numbers after witnessing sluggish offline sales. To encourage their new store opening and refurbishment, the Group has standby our offer to provide incentive to them when they consider the right timing. The retailers are more responsive to local consumers' needs when the market starts to turn upward. They also have the advantage to select the appropriate store location, negotiate for the best terms, and operate offline stores at reasonable costs.

Being the marketing plan to diversify into other B2C e-commerce platforms, the Group has been developing new partnerships to reduce reliance on the No.1 B2C e-commerce platform. Our collaboration with other existing major online platforms in China have worked well with increased sale contribution and sale activities. The revenue in wholesale to online retailers in 2018 has grown by 25.1% compared to corresponding period in 2017. We expect more revenue contribution by this channel in 2019.

In terms of revenue among the brands of ELLE and Jessie & Jane, the distribution is approximately 67.4% and 32.6% in 2018, compared to 62.7% and 37.3% in the same period of 2017.

Besides the design and distribution of lady handbags, the Group has offered marketing services in online market to other retailers by utilising our knowledge, experience and business relation. After further collaboration with the retailers, other income has built up. It achieved RMB5.9 million for the period.

Management's Discussion and Analysis (Continued)

Principal Risks and Uncertainties

Our Group faces several risk and uncertainty factors that may affect the operating results and business prospects. There may have other risks and uncertainties in addition to those listed below which are not known to the Group or which may not be material now but could turn out to be material in the future.

The markets we serve are seasonal and sensitive to domestic economic conditions and events which may cause our operating results to fluctuate.

Our products are sold in highly competitive markets that we compete in products development, product quality, competitive pricing; and adapt to fast changing consumer behaviour.

Our future success depends to a significant degree upon the continued contributions of our management team and key personnel.

Our failure to renew our license agreement to the use of ELLE brand or maintain proper operation of the e-commerce platforms which are operated by third parties may result in monetary penalties and would have a material adverse effect on us.

Relationship with Key Stakeholders

Business relationship with customers and suppliers are crucial for business success. The Company is dedicated to create fair manner while balancing interests of various stakeholders of our Group. We engage our employees, customers, business partners and community through variety of stakeholder engagement channels. The Group provides quality service and products to our customers. The Group also viewed our suppliers as strategic partner. Lastly the Group values its employees as one of its greatest strengths and assets and strive to provide equal opportunities to employees.

FINANCIAL REVIEW

On turnover, the Group's total sales dropped by RMB67.9 million to RMB141.1 million (2017: RMB209.0 million).

Revenue by sales channel, the Group achieved RMB88.9 million sales from online retail points (2017: RMB141.9 million), representing 63.0% of total sales (2017: 67.9%). Sales to online retailers rose to RMB24.4 million (2017: RMB19.5 million). While the revenue of online retail points was lower by 37.4%, wholesale to online retailers increased by 25.1%. Total sales related to these online businesses amounted to RMB113.3 million (2017: RMB161.4 million), representing 29.8% reduction compared to 2017. Online businesses amounted to 80.3% of total sales (2017: 77.2%).

Management's Discussion and Analysis (Continued)

Offline retail sales dropped to RMB5.4 million (2017: RMB14.4 million) as the Group completed transferring retail points to third party retailers. The sales to offline retailers declined to RMB22.5 million (2017: RMB33.1 million). Total sales related to these offline businesses recorded at RMB27.9 million (2017: RMB47.5 million). The offline businesses recorded 41.3% reduction. Offline businesses amounted to 19.7% of total sales (2017: 22.8%).

	2018 RMB'000	2018 %	2017 RMB'000	2017 %	(Decrease)/ Increase RMB'000	(Drop)/ Growth rate %
Retail Sales						
Online retail sales	88,846	63.0%	141,913	67.9%	(53,067)	(37.4%)
Offline retail sales	5,388	3.8%	14,421	6.9%	(9,033)	(62.6%)
Wholesales						
Wholesale to offline retailers	22,454	15.9%	33,145	15.9%	(10,691)	(32.3%)
Wholesale to online retailers	24,393	17.3%	19,504	9.3%	4,889	25.1%
	141,081	100.0%	208,983	100.0%	(67,902)	(32.5%)

Revenue generated from ELLE products was lowered to RMB95.1 million (2017: RMB131.0 million) after transferring a number of self-operated retail points representing 27.4% drop. After strong sale growth in the past, Jessie & Jane products witnessed temporary setback. The sales of Jessie & Jane products was lowered to RMB46.0 million (2017: RMB78.0 million), representing 41.0% reduction.

	2018 RMB'000	2018 %	2017 RMB'000	2017 %	Decrease RMB'000	Drop rate %
ELLE	95,123	67.4%	131,024	62.7%	(35,901)	(27.4%)
Jessie & Jane	45,958	32.6%	77,959	37.3%	(32,001)	(41.0%)
	141,081	100.0%	208,983	100.0%	(67,902)	(32.5%)

Management's Discussion and Analysis (Continued)

Revenue

The Group's revenue decreased by approximately RMB67.9 million, or 32.5%, from approximately RMB209.0 million in 2017 to approximately RMB141.1 million in 2018. The drop in revenue was caused by declined revenue in the sale channels of online retail sales, offline retail sales, and wholesale to offline retailers. Each of these channels recorded approximately 37.4%, 62.6% and 32.3% decline, respectively.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately RMB41.1 million, or 34.9%, from approximately RMB117.9 million to approximately RMB76.8 million. The drop was largely attributable to the 32.5% declined sales. Our gross profit margin for 2018 and 2017 were approximately 54.4% and 56.4% respectively, which represent 2% margin reduction.

Selling and Distribution Costs

The Group's selling and distribution costs decreased by approximately RMB11.5 million, or 15.2%, from approximately RMB75.7 million to approximately RMB64.2 million. The decrease was mainly attributable to the decline in (i) sales commission, (ii) operating costs for directly operated offline retail stores, (iii) royalty payment and (iv) storage fees. Due to variable cost nature of a large portion of selling and distribution expenses, the costs were able to reduce accordingly.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses decreased by approximately RMB8.1 million, or 22.8%, from approximately RMB35.7 million to approximately RMB27.6 million. After deducting listing expenses, the administrative and operating expenses increased by RMB4.9 million or 21.8%, which was mainly attributable to higher operating costs after listing and exchange losses. Additional professional fee and other costs were recorded in relation to the compliance with the GEM Listing Rules and other regulations for maintaining the listing status. Also, unrealised exchange losses of RMB1.6 million was recorded owing to recent RMB depreciation.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

As at 31 December 2018,

(a) the Group's total assets decreased to approximately RMB91.1 million (2017: approximately RMB105.4 million) while the total equity increased to approximately RMB66.0 million (2017: approximately RMB30.0 million);

(b) the Group's current assets decreased to approximately RMB82.1 million (2017: approximately RMB100.1 million) while the current liabilities decreased to approximately RMB25.2 million (2017: approximately RMB75.4 million);

(c) the Group had approximately RMB18.0 million in cash and cash equivalents (2017: approximately RMB19.1 million), and the current ratio of the Group was approximately 3.3 times (2017: approximately 1.3 times);

(d) the Group had bank borrowings of approximately RMB6.1 million (2017: approximately RMB26.4 million), leaving RMB48.3 million uncommitted banking facilities available for future utilisation;

(e) the gearing ratio (calculated based on total debt divided by total equity as at the end of the year and multiplied 100%) of the Group was approximately 9.3% (2017: approximately 88.1%).

The share capital of the Group only comprises of ordinary shares. The Group actively and regularly reviews the capital structure and makes adjustments in light of changes in economic conditions. The Group monitors the capital structure on the basis of the net debt to equity ratio.

Management's Discussion and Analysis (Continued)

The Group is of the opinion that, after taking into consideration of the internal available financial resources and the current banking facilities, it has sufficient funds to finance internal operations and meet the financial obligations.

CAPITAL EXPENDITURE

As at 31 December 2018, the Group has approximately RMB5.6 million of capital expenditure (2017: approximately RMB4.2 million).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no significant investments, material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2018 (2017: Nil).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities or off-balance sheet obligation (2017: Nil).

INDEBTEDNESS AND CHARGES ON GROUP'S ASSETS

As at 31 December 2018, the Group did not have any assets pledged to secure general banking facilities (2017: Nil).

PROSPECT

The management believes that the consumption in China continues to grow with increased purchasing power and steady economic growth. We believe that the Group will resume business growth in 2019. The Group has stepped up marketing effort in areas of strengthening product design, increasing exposure at target multimedia, and enhancing VIP member programs to market our products.

The management aims to strengthen our market position, as well as brand awareness, in the women's handbag market in China. With all these business plans, they will pave the way for steady growth in the coming years.

FOREIGN CURRENCY EXPOSURE

The Group's businesses are solely operated in China. The sales and purchases are mainly denominated in Renminbi ("RMB") and customers rarely request to settle our billing by other foreign currencies such as United States dollar and Hong Kong dollar ("HKD"). Except the bank borrowings, the Group's assets, liabilities and transactions were mainly denominated in RMB in the year. The HKD borrowings were at short-term nature and could be repaid at request.

Management's Discussion and Analysis (Continued)

The Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks and only a small portion of HKD borrowings is outstanding after listing on 16 January 2018. Therefore, no hedging arrangements are made. However, the Group will review and monitor the relevant foreign exchange risk from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements when applicable.

COMPARISON OF BUSINESS OBJECTIVE AND STRATEGIES WITH ACTUAL BUSINESS PROGRESS

As set out in the Prospectus, the business objectives and strategies of the Group are (i) marketing investments in social media events; (ii) expansion of product design and development capacities; (iii) physical shop opening and refurbishment; and (iv) information technology system purchase and upgrade.

An analysis comparing the future plans and use of proceeds contained in the Prospectus with the Group's actual business progress for the period from the date of Listing to 31 December 2018 (the "Relevant Period") is set out below:

Business strategy	Implementation plan	Actual business progress
Marketing investment in social media events	Providing sponsorships to artists and television programmes.	The Group is in the progress of seeking for appropriate artists for sponsorship and TV programmes.
	Increasing our marketing efforts by, among others, placing more advertisements on social media and photoshoots.	The Group has advertised on social media including ELLE website, magazines and photoshoots.
	Participating in and attending fashion shows and exhibitions.	The Group participated Paris Fashion Week in October 2018.
Expansion of product design and development capacities	Recruitment of designers and engage one more overseas design consultant firm for fashion trend information for our brands.	One additional designer has been recruited for Jessie & Jane.
	Recruitment of one additional product development manager and one additional procurement executive.	One additional product development manager, responsible for costume jewelry, has been recruited for Jessie & Jane.

Management's Discussion and Analysis (Continued)

Business strategy	Implementation plan	Actual business progress
Physical shop opening and refurbishment	Providing subsidy on decoration costs of approximately RMB150,000 each, representing approximately 50% of each shop's decoration costs, to our third party retailers for the opening of 14 new Jessie & Jane shops under new shop opening incentive scheme.	The Group has provided subsidy to third party retailers for the opening 4 new ELLE shops and 21 new Jessie & Jane shops under new shop opening incentive scheme.
Information technology system purchase and upgrade	Upgrading our finance system and functions such as inventory reports, etc. and sales processing system.	The Group has updated part of the finance system.
	Purchasing of software licences including our product design and operating system softwares.	The Group is in the progress of seeking for appropriate software.
	Purchasing of servers and storage equipment.	The Group is in the progress of seeking for appropriate suppliers.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Group was listed on GEM of the Exchange on 16 January 2018.

As at the date of this report, the Group has applied RMB14.2 million proceeds in the designated areas, compared to the initial plan of RMB16.0 million. Due to the intent to boost sales, higher portion of the proceeds was used in marketing through social media in 2018 to expose our brands and products in the consumer market. The investment in design and new product category, as well as offline store opening and refurbishment, have been proceeded cautiously so as to match with market development. Faced with weak consumer sentiment on our products, our offline retail partners have delayed their new store opening. Similarly, the Group has slow down the plan to diversify into other product category, thus deferring the plan to recruit one designer, one procurement executive and an overseas design consultant firm. Directors do not anticipate any significant change to the use of net proceeds. The Group will apply the proceeds in the same manner and proportion as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Management's Discussion and Analysis (Continued)

The use of IPO proceeds for the year ended 31 December 2018 are shown as below:

		Net proceeds RMB'000	Utilised amount from the Listing Date up to 31 December 2018 RMB'000	Unutilised amount as at 31 December 2018 RMB'000
(1)	Marketing investment in social media events	13,610	9,729	3,881
(2)	Design and new product category	4,185	351	3,834
(3)	Physical shop opening and refurbishment	6,250	2,751	3,499
(4)	IT system purchase and upgrade	6,862	1,328	5,534
	Total Use of Net Proceeds	30,907	14,159	16,748

HUMAN RESOURCES

As at 31 December 2018, the Group had 88 employees (2017: 100) in Hong Kong and the PRC. We believe that hiring, motivating and retaining qualified employees are crucial to our success as a online and offline distributor. Total staff costs (including Directors' emoluments) were RMB17.6 million for the year ended 31 December 2018 (2017: RMB17.8 million). The remuneration packages of the Group's employees include salaries, bonus, retirement benefit scheme contributions and other benefits. The remuneration policies of the Group, including promotion, bonus, salary increment and other benefits, are formulated based on the Group's operating results, employees' individual performance, working experience, respective responsibilities, merit, qualifications and competence, as well as comparable to the prevailing market practice, standards and statistics. The remuneration policies of the Group are reviewed by the management of the Group regularly. The dedication and hard work of the Group's staff during the year ended 31 December 2018 are generally appreciated and recognized.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yau Frederick Heng Chung ("Mr. Fred Yau"), aged 44, son of Mr. Yau Sonny Tai Nin, nephew of Mr. Yau Tai Leung Sammy, is our Chairman, executive Director and one of our Controlling Shareholders. He also sits on boards of various companies within the Group. He is primarily responsible for the overall business corporate strategic planning and development of our Group. He obtained a bachelor's degree in chemistry from Harvard University in the United States in June 1997.

Mr. Fred Yau has over 16 years of experience in the women's handbag industry. Since March 2002, he has become a director of Sling Incorporated Limited and has been responsible for our Group's strategic and development planning. Since March 2002, Mr. Fred Yau has also become an executive director of Yen Sheng Factory Limited and has been responsible for coordinating the operation of Yen Sheng Factory Limited, including marketing, sales and distribution, managing merchandising and production operation. Through his industry-related working experience, Mr. Fred Yau has accumulated industry knowledge and market understanding for the women's handbag industry.

Mr. Lee Tat Fai Brian ("Mr. Brian Lee"), aged 45, is our chief executive officer and executive Director. He is the son of Ms. Li Wing Chi Agnes who is one of our substantial shareholders through Summit Time Resources Limited. He also sits on boards of various companies within the Group. He is primarily responsible for the operation and management of our Group. He obtained a bachelor's degree in arts and a degree of bachelor of science in economics both from the University of Pennsylvania in the United States in May 1995.

Mr. Brian Lee has over 19 years of experience in the women's handbag industry. In 1999, he and his then business partners, together with the Yau Family, founded our Group with a view to develop women's handbags business. He has been a director of Sling Incorporated Limited since May 1999, and has been responsible for the operation and management of our Group, including the implementation and execution of our business plans. Through his industry-related working experience, he has accumulated industry knowledge and market understanding for the women's handbag industry.

Mr. Yip Chun Wai ("Mr. Yip"), aged 52, is our chief financial officer and executive Director. He is also a director of Senhao Shanghai. Mr. Yip joined our Group in December 2015 as chief financial officer. He is primarily responsible for the overall financial planning and management, as well as developing and maintaining relationship with banks in Hong Kong and the PRC.

Mr. Yip obtained a bachelor's degree in commerce from Dalhousie University in Canada in May 1992 and a degree of master of science in finance from the City University of Hong Kong in November 1998. He has obtained membership in the Hong Kong Securities and Investment Institute since November 2012.

Mr. Yip has over 20 years of experience in the banking and finance industry in Hong Kong. Prior to joining our Group, between June 2004 and September 2013, Mr. Yip worked in Hang Seng Bank Limited, a licensed bank in Hong Kong, with his last position as deputy head of relationship management department (team head) in the CMB relationship management department, where he was responsible for supervising the relationship management team regarding corporate and commercial clients and conducting financial forecast and analysis for corporate and commercial clients.

Directors and Senior Management (Continued)

NON-EXECUTIVE DIRECTORS

Mr. Yau Sonny Tai Nin ("Mr. Sonny Yau"), aged 71, father of Mr. Fred Yau and elder brother of Mr. Yau Tai Leung Sammy, is our non-executive Director and one of our Controlling Shareholders. Mr. Sonny Yau is also a director of Sling BVI and Sling Incorporated Limited. He is primarily responsible for supervising and providing strategic guidance to our Board. He obtained a bachelor's degree in science from Cornell University in the United States in May 1972.

Mr. Sonny Yau has over 43 years of experience in the handbag industry. Mr. Sonny Yau and the Yau Family founded Yen Sheng Group and Tai Heng Group, which are principally engaged in the provision of manufacturing services and sale of handbags, leather goods and travel goods as an original equipment manufacturer to customers both in and outside the PRC. Since February 1975, Mr. Sonny Yau has been leading Yen Sheng Factory Limited as the chief executive officer and the director of operation. He was mainly responsible for the business development of Yen Sheng Group, including strategic planning, setting the company's values, culture and behaviour, building the senior executive team and allocating resources of the company. Through his industry-related working experience, Mr. Sonny Yau has accumulated industry knowledge and market understanding for the women's handbag industry.

Mr. Yau Tai Leung Sammy ("Mr. Sammy Yau"), aged 65, younger brother of Mr. Sonny Yau and uncle of Mr. Fred Yau, is our non-executive Director and one of our Controlling Shareholders. Mr. Sammy Yau is also a director of Sling incorporated limited and Elite Grand. He is primarily responsible for supervising and providing strategic guidance to our Board.

Mr. Sammy Yau has over 41 years of experience in the handbag industry. The Yau Family, including Mr. Sammy Yau, founded Yen Sheng Group and Tai Heng Group, which are engaged in the provision of manufacturing services and sale of handbags, leather goods and travel goods as an original equipment manufacturer to customers both in and outside the PRC. Since February 1977, Mr. Sammy Yau has been leading Yen Sheng Factory as the director of sales and an executive director. He was mainly responsible for the business development of Yen Sheng Group, including strategic planning, sales and operation, and building the senior executive team. Through his industry-related working experience, Mr. Sammy Yau has accumulated industry knowledge and market understanding for the women's handbag industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Sit Ting Fong ("Ms. Sit"), aged 44, was appointed as our independent non-executive Director on 31 January 2019. She is the chairlady of Nomination Committee, a member of each of Audit Committee and Remuneration Committee of the Board. She obtained a degree of bachelor of business administration with first class honours from the Chinese University of Hong Kong in December 1997, and a degree of master in business administration from Harvard University in the United States in June 2002.

Ms. Sit has close to 20 years of strategic consulting, private equity investment and portfolio management experience in the Greater China region. From October 2002 to March 2005, Ms. Sit was a consultant with Bain & Company in China, where she advised multinational corporations on market entry, business expansion, and operating strategies. Between May 2005 and June 2007, Ms. Sit worked at Crimson Investment as a Vice President, focused on growth capital investments in China, Taiwan and the United States. Between July 2007 and April 2011, Ms. Sit joined the Greater China Private Equity Unit of the D. E Shaw group, a global investment and technology development firm, as Vice President and later Director, responsible for the firm's private equity investment and portfolio management activities in the region. Ms. Sit is a founding member of Ascendent Capital Partners, a Greater China private equity investment management firm established in April 2011. She is currently the Head of Public Relations at Ascendent.

Directors and Senior Management (Continued)

Mr. Won Chik Kee ("Mr. Won"), aged 49, was appointed as our independent non-executive Director on 15 December 2017. He is a chairman of Audit Committee, a member of each of Remuneration Committee and Nomination Committee of the Board. He obtained a diploma of accountancy from Lingnan College in January 1993, and a bachelor's degree of business from the Monash University in Australia in July 1996. Mr. Won has become an associate in (i) The Chartered Association of Certified Accountants since February 1995; (ii) the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) since October 1995; and (iii) The Australian Society of Certified Practising Accountants since February 1996. He also has become a fellow of The Association of Chartered Certified Accountants since February 2000.

Mr. Won has been the sole proprietor of C K Won & Co, an accounting firm in Hong Kong, since February 1999. He is also the founder of Concord Asia Secretaries Limited, a company engaging in secretarial, consulting and accounting services since March 1998. Mr. Won worked as a junior accountant in the audit department of Kwan Wong Tan & Fong (a company which had merged with Deloitte Touche Tohmatsu Limited in 1997) from August 1992 to February 1994. He joined Deloitte Touche Tohmatsu Limited as a staff accountant II in February 1994, and was promoted to semi-senior accountant in January 1995, where he was responsible for overall control of small to medium sized audit assignments and to supervise junior audit staff. He left the firm in February 1996, and worked as a financial controller and the assistant of a director of Mae Holdings Limited (now known as Sheng Yuan Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 851)) from July 1996 to February 2001.

Mr. Feng Dai ("Mr. Feng"), aged 43, was appointed as our independent non-executive Director on 15 December 2017. He is a chairman of Remuneration Committee, a member of each of Audit Committee and Nomination Committee of the Board. He obtained a degree of bachelor of arts in engineering sciences from Harvard University in the United States in June 1997.

Between April 2004 and December 2014, Mr. Feng joined Warburg Pincus Asia LLC, a company principally engaged in investment advisory, where he had worked at various positions, including associate, principal and managing director. He was responsible for advising on private equity investments and post-investment management. Since March 2015, Mr. Feng has been working as the managing director of CareCapital Advisors Limited, a company principally engaged in management advisory. He was responsible for advising on business development and organizational management, with focus on the healthcare industry.

SENIOR MANAGEMENT

Ms. Jiang Ying, aged 37, is the design director of the product design and development department of our Group. Ms. Jiang joined our Group in April 2014. She is primarily responsible for creation of product design theme, style and development in accordance with the brands' characteristics of our Group.

Ms. Jiang obtained a bachelor's degree in industrial design from University of Science and Technology Beijing (北京科技大學) in the PRC in July 2004. In October 2011, Ms. Jiang was awarded the Outstanding Female Designer of Shanghai Award by the Shanghai Municipal Commission of Economy and Informatisation* (上海市經濟和信息化委員會), the Communist Party of the PRC Working Committee of Economy and Informatisation of the Shanghai Municipal* (中共上海市經濟和信息化工作委員會) and the Women's Society of Shanghai City* (上海市婦女聯合會).

Mr. Fang Yan, aged 46, is the design team leader of our Group. Mr. Fang joined our Group in March 2006 as the design team leader of our Group. He is primarily responsible for coordinating product development within different departments of our Group and creating designs of our products.

Directors and Senior Management (Continued)

Mr. Fang obtained a diploma in fashion design from the First Institute of Art and Design in Hong Kong in August 1999.

Mr. Fang has over 20 years of experience in the design industry. Prior to joining our Group, between January 1994 and February 2006, Mr. Fang served as a senior designer in Yen Sheng Factory and he was responsible for designing and presenting products for clients.

Ms. Shen Min, aged 50, is the merchandising director of the product and logistics department of our Group. Ms. Shen joined our Group in February 2016. She is primarily responsible for the implementation of product development strategies, product budgeting and inventory control in accordance with the sales target of our Group. Ms. Shen obtained a bachelor's degree in applied electronic technology from Shanghai Polytechnic University (上海第二工業大學) in the PRC in July 1991.

Ms. Shen has over five years of experience in the merchandising industry in the PRC. Prior to joining our Group, between April 2012 and February 2016, Ms. Shen served as the product director of various brands of Baroque (Shanghai) Garment Co., Ltd. (巴羅克(上海)企業發展有限公司), a company which is engaged in the wholesale of garments and accessories and is a subsidiary of Belle International Holdings Limited, a company listed on the Main Board of the Stock Exchange between May 2007 and July 2017 (former stock code: 1880). Belle International Holdings Limited has withdrawn the listing of its shares from the Stock Exchange since 27 July 2017. She was primarily responsible for managing merchandising of the products.

Ms. Xu Yijie, aged 36, is the financial controller of our Group and a director of Senhao Shanghai. Ms. Xu joined our Group in January 2017 as the financial controller of Senhao Shanghai. She is primarily responsible for preparation of financial statements, tax report, financial analysis, budgeting and internal control of our Group.

Ms. Xu obtained a bachelor's degree in English language from Shanghai International Studies University (上海外國語大學) in the PRC in July 2004. She was admitted as a certified public accountant by CPA Australia in December 2016. She also obtained membership in Shanghai Institute of Certified Public Accountants in August 2010 and became an internal auditor approved by the China Institute of Internal Audit with the authorization from the Institute of Internal Auditors in November 2008.

Ms. Xu has over 10 years of experience in the finance and accounting industry in the PRC. Prior to joining our Group, between December 2013 and December 2016, Ms. Xu served as a finance manager in Perceptron Metrology Technology (Shanghai) Co., Ltd. (伯賽計量科技(上海)有限公司), a company which is engaged in software design, production and sales, where she was responsible for internal financial consulting.

Mr. Li Zhaoqing, aged 39, is the IT senior manager of our Group. Mr. Li joined our Group in March 2017. He is primarily responsible for managing our Group's information technology system and developing technologies applicable to the operations of our Group.

Mr. Li obtained a diploma in business administration from Shanghai Jiao Tong University in the PRC in July 2011 by completing online courses.

Mr. Li has over 15 years of experience in the information technology industry in the PRC. Prior to joining our Group, between September 2008 and March 2017, Mr. Li joined Belle Footwear (Shanghai) Company Limited* (百麗鞋業(上海)有限公司), a company principally engaged in the trading of shoes, footwear products, sport shoes and apparel in the PRC and is a subsidiary of Belle International Holdings Limited, a company listed on the Main Board of the Stock Exchange between May 2007 and July 2017 (former stock code: 1880), as a manager of the information technology department where he was responsible for management of information technology system and information system planning.

Corporate Governance Report

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the period from 16 January 2018 (the "Listing Date") to the date of this report (the "Period"), the Company has complied with the applicable code provisions (the "Code Provisions") of the CG Code.

BOARD OF DIRECTORS

The Board is responsible for the formulation of business policies and strategies of the Group, the nomination and appointment of directors, and to ensure the availability of resources as well as the effectiveness of its system of internal control and risk management. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various duties and responsibilities as set out in their terms of reference respectively. Each Director shall ensure that he carries out his duty in good faith in compliance with the standard of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

Up to the date of this report, the Board comprised eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors
Mr. Yau Frederick Heng Chung
Mr. Lee Tat Fai Brian
Mr. Yip Chun Wai

Non-executive Directors
Mr. Yau Sonny Tai Nin
Mr. Yau Tai Leung Sammy

Independent Non-executive Directors
Mr. Won Chik Kee
Mr. Feng Dai
Ms. Sit Ting Fong (appointed on 31 January 2019)
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)

The details of Directors are set out in the section headed "Directors and Senior Management" on pages 14 to 17 of this report.

The Company is governed by the Board which has the responsibility for leadership and monitoring of the Company. The Directors are collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs.

The Board sets strategies and directions for the Group's activities with a view to developing its business and enhancing shareholders' value. The Board has delegated the daily operation and day-to-day management of the Group as well as the implementation of the Board's policies and strategies to the executive Directors and management of the Group.

Corporate Governance Report (Continued)

Number of Meetings and Directors' Attendance

The Board will conduct at least 4 regular meetings a year. Board members are provided with all agenda and adequate information for their review within reasonable time before the meetings. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association (the "Articles").

During the Period, the Company held four Board meetings, four audit committee (the "Audit Committee") meetings, one remuneration committee (the "Remuneration Committee") meetings and one nomination committee (the "Nomination Committee") meeting. All minutes of the Board meetings and meetings of Board committees were recorded in sufficient detail the matters considered by the Board and the decisions reached. Details of the attendance of Directors are as follows:

Name of Directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:				
Mr. Yau Frederick Heng Chung	5/5	4/4	1/1	1/1
Mr. Lee Tat Fai Brian	5/5	1/4	1/1	—
Mr. Yip Chun Wai	5/5	4/4	1/1	—
Non-executive Directors:				
Mr. Yau Sonny Tai Nin	4/5	—	—	—
Mr. Yau Tai Leung Sammy	5/5	—	—	—
Independent Non-executive Directors:				
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)	4/5	2/4	1/1	1/1
Mr. Won Chik Kee	5/5	4/4	1/1	1/1
Mr. Feng Dai	5/5	4/4	1/1	1/1
Ms. Sit Ting Fong (appointed on 31 January 2019)	—	—	—	—

The company secretary of the Company ("Company Secretary") attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

Practice and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. At least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are duly kept by the Company Secretary at the meetings and open for inspection by the Directors.

The Company's Articles contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Audit Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions.

Corporate Governance Report (Continued)

Appointment, Re-election of Directors and Removal of Directors

Each of the Executive Directors has entered into a service contract for a term of 3 years with the Company commencing from 15 December 2017 unless otherwise terminated by either party by giving to the other not less than three months' prior written notice.

Each of Non-executive Directors and two Independent Non-executive Directors have entered into a letter of appointment for a term of 2 years with the Company commencing from 15 December 2017 unless otherwise terminated by either party by giving to the other not less than three months' notice in writing.

One independent Non-executive Director has entered into a letter of appointment for a term of 2 years with the Company commencing from 31 January 2019 unless otherwise terminated by either party by giving to the other not less than three months' notice in writing.

In accordance with Article 105 of 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 and re-election. Each Director shall retire from office at least once every three years.

In accordance with Article 109 of the Articles of Association, any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office until the following general meeting (in the case of filling a causal vacancy) or the next following annual general meeting (in the case of an additional Director) and shall then be eligible for election.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company recommends Directors to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

Corporate Governance Report (Continued)

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The training each director received during the year is summarized as below:

	Attending seminars/ in house workshop relevant to the Company's business, Listing Rules Compliance, regulatory and statutory updates	Reading newspaper journals and other relevant materials regarding regulatory update and corporate governance matters
Executive Directors		
Mr. Yau Frederick Heng Chung	✓	✓
Mr. Lee Tat Fai Brian	✓	✓
Mr. Yip Chun Wai	✓	✓
Non-executive Directors		
Mr. Yau Sonny Tai Nin	✓	✓
Mr. Yau Tai Leung Sammy	✓	✓
Independent Non-executive Directors		
Mr. Won Chik Kee	✓	✓
Mr. Feng Dai	✓	✓
Ms. Sit Ting Fong (appointed on 31 January 2019)	N/A	N/A
Mr. Tong Raymond Kwok Kong (resigned on 31 January 2019)	✓	✓

Up to the date of this report, all Directors have participated in continuous professional development by attending training course and reading relevant materials on the topics related to corporate governance and regulations under GEM Listing Rules. Records of the training received by the respective Directors are kept and updated by the Company Secretary of the Company.

Independent Non-executive Directors

Mr. Mr. Won Chik Kee and Mr. Feng Dai were appointed as the independent non-executive Directors with effect from 15 December 2017. Ms. Sit Ting Fong was newly appointed as the independent non-executive Directors with effect from 31 January 2019.

The Company has received from each of its independent non-executive Directors the written confirmation of their independence. The Company considers the independent non-executive Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

Corporate Governance Report (Continued)

Chairman and Chief Executive Officer

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established to ensure a balance of power and authority.

Mr. Yau Frederick Heng Chung serves as the chairman of the Board and is responsible for overall business corporate strategic planning and development of the Group. Mr. Lee Tat Fai Brian serves as the chief executive officer of the Company and is responsible for operation and management of the Group.

BOARD COMMITTEE

Audit Committee

The Company established the Audit Committee on 15 December 2017 with written terms of reference. The full terms of reference setting out details of duties of the Audit Committee is available on the websites of the Stock Exchange and the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Won Chik Kee, Mr. Feng Dai and Ms. Sit Ting Fong. Mr. Won Chik Kee is the Chairman of the Audit Committee.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the Company's internal control and risk management system, overseeing the balance, transparency and integrity of the Company's financial statements and the application of financial reporting principles, reviewing the relationship with the external auditor and its independence assessment and the adequacy of resources, qualifications and experience of the Company's accounting staff, their training programs and budget.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year.

During the year ended 31 December 2018, the Audit Committee held four meetings to review the quarterly financial results announcement and report for the three months ended 31 March 2018; the interim financial results announcement and report of the Group for the six months ended 30 June 2018; the quarterly financial results announcement and report for the nine months ended 30 September 2018; and the annual financial results announcement and report of the Group for the year ended 31 December 2017 as well as significant issues on the financial reporting and compliance procedures, internal control and risk management systems, and the effectiveness of the Group's internal audit.

Details of the number of Audit Committee meetings held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 19 in this report.

Remuneration Committee

The Company established the Remuneration Committee on 15 December 2017 which comprised three independent non-executive Directors, namely Mr. Won Chik Kee, Mr. Feng Dai and Ms. Sit Ting Fong. Mr. Feng Dai is the Chairman of the Remuneration Committee.

Corporate Governance Report (Continued)

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review and approve the management's remuneration proposals. The full terms of reference setting out details of duties of the Remuneration Committee is available on the websites of the Stock Exchange and the Company.

The Remuneration Committee determines Directors' remuneration by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance and the results of the Group in determining the exact level of remuneration for each Director.

During the year, the Remuneration Committee has reviewed and approved the remuneration package of the Directors of the Group.

Details of the number of Remuneration Committee meeting held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 19 in this report.

Remuneration Policy

The remuneration policy of the Group for the Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and senior management members.

Nomination Committee

The Company established the Nomination Committee on 15 December 2017 which comprised three independent non-executive Directors, namely Mr. Won Chik Kee, Mr. Feng Dai and Ms. Sit Ting Fong. Ms. Sit Ting Fong is the Chairlady of the Nomination Committee.

The primary function of the Nomination Committee is to make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board. The full terms of reference setting out details of duties of the Nomination Committee is available on the websites of the Stock Exchange and the Company.

The Board adopted the board diversity policy (the "Policy") in accordance with the requirement as set out in the CG Code. The Nomination Committee regularly monitors and reviews the implementation of the Policy. Details of the Policy are set out in the section headed "Board Diversity Policy" of this report.

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board and the Policy as well as discussing matters regarding the retirement and re-election of Directors.

Details of the number of Nomination Committee meeting held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 19 in this report.

Nomination Policy

The Company adopted a nomination policy (the "Nomination Policy") on 21 March 2019. In conjunction to the board diversity policy, the Board shall consider a number of criteria on the appointment of directors, and succession planning for directors, as well as re-appointment of directors. The criteria include character and integrity, professional qualifications, skills, knowledge, experience, potential contributions to the Board, as well as willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board commitment(s).

When necessary, the nomination committee should seek independent professional advice to access a wider range of potential candidates.

Corporate Governance Report (Continued)

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements of the Group on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about his reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and 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 reporting responsibilities of the Company's auditors, Grant Thornton Hong Kong Limited, are set out in the Independent Auditor's Report on pages 58 to 62 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the remuneration paid or payable to the Company's auditor was as follows:

Services rendered	RMB'000
Audit service for the year ended 31 December 2018	620
Total	620

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining an adequate system of internal controls and risk management of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system and risk management system to safeguard the interest of shareholders and the Group's assets. The Board has reviewed the effectiveness of the internal control system and risk management system of the Group through Audit Committee.

Corporate Governance Report (Continued)

As the corporate and operation structure of the Group is not complex and a separate internal audit department may divert resources of the Group, the Company does not have an internal audit department. However, the Group engaged an external internal control consultant to conduct a review on the internal control system of the Group during the year. The review covered certain operational procedures and included recommendations for improvement and strengthening of the internal control system of the Group. No significant control failings or weakness have been identified by the external internal control consultant during the review. The Audit Committee has received the risk management and internal control evaluation reports prepared by the external professional firm. The reports summarised information relating to the work carried out in the following areas:

- the results of selective testing of internal control procedures, operation, and financial records of the Group;
- a general evaluation of risk management and internal control systems installed by the Group; and
- an outline of major control issues, if any, noticed during the year under review.

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by the external professional to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. The Board considered the internal control and risk management systems effective and adequate.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Group's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Group's policies and practices on compliance with legal and regulatory requirements, etc.

The Directors has reviewed the Group's corporate governance policies and compliance with the Corporate Governance Code for the year ended 31 December 2018 and complied with the "comply or explain" principle in our corporate governance report.

Non-competition Undertaking

The independent Non-executive Directors have reviewed the confirmation given by Mr. Yau Sonny Tai Nin, Mr. Yau Frederick Heng Chung, Mr. Yau Tai Leung Sammy, Mr. Yau Nicholas Heng Wah, Ms. Hiang Siu Wei Cecilia and Yen Sheng Investment Limited, the controlling shareholders of the Company, pursuant to which each of Mr. Yau Sonny Tai Nin, Mr. Yau Frederick Heng Chung, Mr. Yau Tai Leung Sammy, Mr. Yau Nicholas Heng Wah, Ms. Hiang Siu Wei Cecilia and Yen Sheng Investment Limited has confirmed that, for the year ended 31 December 2018, they and their respective associates have not breached any of the terms of undertaking contained in the non-competition undertaking dated 15 December 2017 as disclosed in the prospectus of the Company dated 29 December 2017.

Corporate Governance Report (Continued)

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy in accordance with the requirement as set out in the CG Code, which is summarized as below:

The Policy of the Company specifies that in designing the optimum composition the Board, Board diversity shall be considered from a number of aspects, including but not limited to skills, regional and industry experience, background, race, gender and other qualities of Directors. All Board members' appointment will be based on merit while taking into account diversity. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

The Nomination Committee will view the board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("Code of Conduct") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the year ended 31 December 2018 and up to the date of this report.

SHAREHOLDERS RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("the EGM") of the Company are prepared in accordance with Article 64 of the Articles of Association of the Company:

1 One or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may, by written requisition to the Board or the Company Secretary of the Company require an EGM to be called by the Board for the transaction of any business specified in such requisition.

2 The EGM shall be held within 2 months after the deposit of such requisition.

3 If the Directors fail to proceed to convene such meeting within 21 days of such deposit of requisition, 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.

Corporate Governance Report (Continued)

Procedures for Raising Enquiries

1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are set out in the section of headed "Corporate Information" of this annual report.

2 Shareholders may at any time raise any enquiry in respect of the Company to our investor relation team via email at the email address at info@sling-inc.com.hk.

3 Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

Procedures and Contact Details for Putting Forward Proposals at Shareholders' Meetings

1 To put forward proposals at the general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information at the Company's principal place of business at Unit 1, 21st Floor, Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, Kowloon.

2 The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will include the Proposal in the agenda for the general meeting.

3 The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholders concerned at the annual general meeting or an EGM varies according to the nature of the Proposal as follows:

(i) At least 21 clear days' notice (notice period must include 20 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes a special resolution of the Company in an EGM or if the Proposal is put forward at an annual general meeting of the Company; or

(ii) At least 14 clear days' notice (the notice period must include 10 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes an ordinary resolution of the Company at an EGM.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Information about the Group has been provided to the shareholders through financial reports and announcements in order to keep shareholders well informed of the business activities and directions of the Group. The Group has also established a corporate website www.sling-inc.com.hk as a channel to facilitate effective communication with the shareholders.

Significant Changes in the Constitutional Documents

The amended and restated memorandum and articles of association of the Company were adopted on 15 December 2017 to comply with the relevant provisions of the GEM Listing Rules.

A copy of the memorandum and articles of association of the Company is posted on the designated website of the GEM of the Stock exchange and the website of the Company.

There had been no changes in the memorandum and articles of association of the Company since the Listing Date to the date of this report.

Corporate Governance Report (Continued)

General Meetings with Shareholders

The Company's second annual general meeting will be held on 4 June 2019.

Investor Relations

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company www.sling-inc.com.hk has provided an effective communication platform to the public and the shareholders.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Kingsway Capital Limited as its compliance adviser (the "Compliance Adviser"). Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company will consult with and seek advice from the compliance adviser on a timely basis in matters, including among others, (i) publication of regulatory announcements, circulars or financial reports; (ii) contemplation of notifiable or connected transactions; (iii) change in the use of proceeds from the listing; and (iv) inquiry from the Stock Exchange of Hong Kong Limited.

INTERESTS OF THE COMPLIANCE ADVISER

Save for the compliance adviser agreement between the Company and Kingsway Capital Limited, neither Kingsway Capital Limited, its directors, employees and close associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPANY SECRETARY

Ms. Leung Sau Fong is the Company Secretary of the Company. She is a director of a corporate secretarial services provider in Hong Kong. The primary contact person of the Company with Ms. Leung is Mr. Yip Chun Wai, the Chief Financial Officer of the Company.

All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

During the year ended 31 December 2018, the Company Secretary confirmed that she had taken no less than 15 hours of relevant professional training.

Environmental, Social and Governance Report

ABOUT THE REPORT

Sling Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group" or "We") are pleased to publish the Environmental, Social and Governance Report (the "ESG Report") for the reporting period from 1 January 2018 to 31 December 2018 (the "Year"). The ESG Report summarizes the efforts and achievement made by the Group in corporate social responsibility and sustainable development. As for the information on corporate governance, please refer to the "Corporate Governance Report" of this Annual Report.

Scope of the Report

The ESG Report focuses on the environmental and social performance of the Group's business in the design and sale of women's handbags. The disclosure of key performance indicators ("KPIs") in the Year continues focusing on the office operation of an indirect wholly-owned subsidiary of the Company, Senhao Shangmao (Shanghai) Company Limited ("Senhao Shanghai"), in the People's Republic of China (the "PRC"). During the Year, Senhao Shanghai has relocated to a new office, which affects the environmental performance of the Group. The ESG Report presents our sustainability approach and performance in the environmental and social aspects of our business in the Year. The Group will continue to strengthen information collection in order to enhance the performance in the environmental aspect and to disclose relevant information in sustainable development.

Reporting Framework

The ESG Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 20 to the GEM Listing Rules published by the Stock Exchange of Hong Kong Limited.

Information and Feedback

For more details on the Group's environmental, social and corporate governance, please refer to the official website (http://sling-inc.com.hk/) of Sling Group Holdings Limited. Your opinions will be highly valued by the Company. Should you have any advice or suggestions, please email to info@sling-inc.com.hk.

STAKEHOLDER ENGAGEMENT

The Group highly values the communication with its key stakeholders and takes the opinions from stakeholders as the basis for its formulation and implementation of short-term and long-term sustainability strategies. In the Year, stakeholder engagement and materiality assessment have been carried out, which enabled us to understand the needs of stakeholders and identify our material topics regarding environmental, social and corporate governance.

Environmental, Social and Governance Report (Continued)

Communication with Stakeholders

The Group promotes its approach and practices in environmental, social and governance to stakeholders through various effective communication channels, such as meetings, announcements, company websites, and emails, as well as understands and takes corresponding measures in meeting stakeholders' requirements and expectations. The table below indicates our stakeholders, their requirements and expectations towards the Group, and the corresponding communication channels and responses.

Stakeholders	Requirements and Expectations	Means of Communication and Response
Government and Regulators	• Compliance with national policies, laws and regulations • Drive local employment • Pay taxes in full and on time • Ensure production safety	• Report information regularly • Meet the regulators regularly
Shareholders	• Returns • Compliant operation • Raise company value • Transparency in information and effective communication	• General Meetings • Announcements • Email, telephone communication and company website
Business Partners	• Operate with integrity • Equal Rivalry • Performance of contracts • Mutual benefit and win-win result	• Review and appraisal meetings • Business communications • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts	• Customer service center and hotlines • Customer feedback surveys • Social Media Platforms
Environment	• Energy saving and emission reduction	• Communicate with local environmental department • Communicate with the locals • Reporting
Industry	• Establishment of industry standards	• Visits and inspections
Employees	• Protection of rights • Occupational health • Career development • Humanity cares	• Employee communication meetings • Employee mailbox • Training and workshop
Community and the Public	• Improve community environment • Transparent information	• Company website • Announcements

Environmental, Social and Governance Report (Continued)

Materiality Assessment

During the preparation of the ESG Report, the Group entrusted an independent third-party consultant for the assistance in conducting a materiality assessment in a just and unbiased manner. The materiality assessment has been conducted based on the following three main phases:

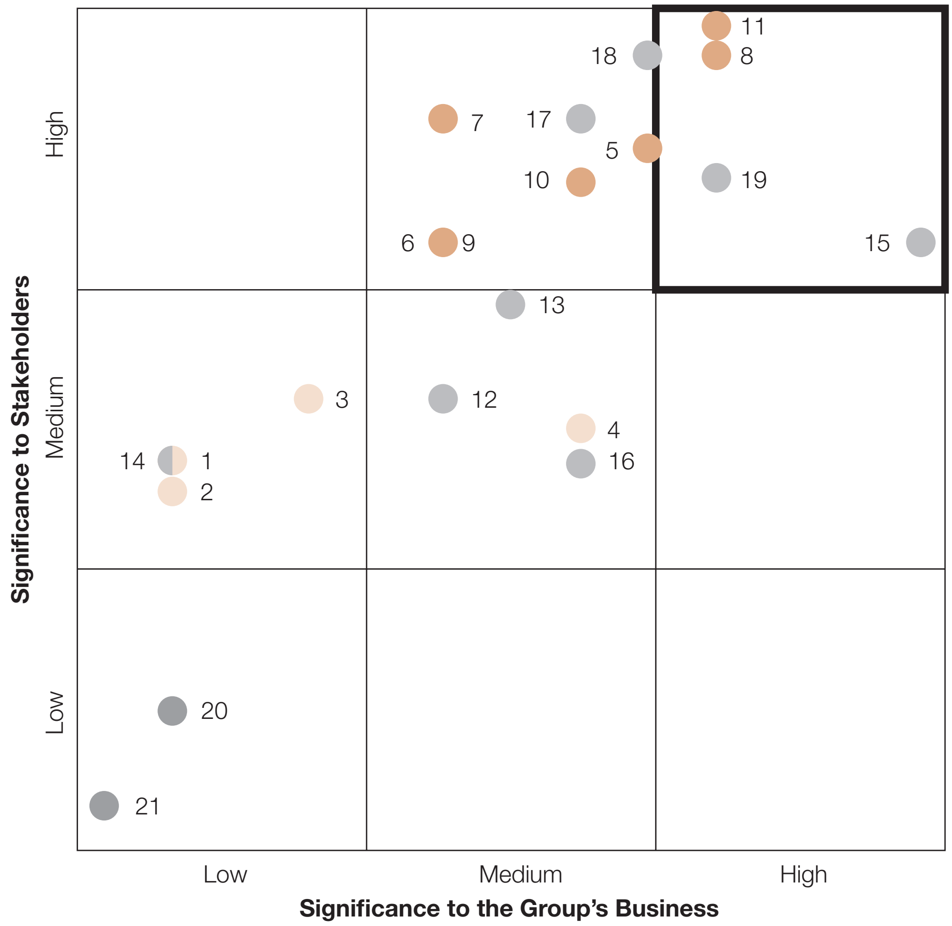
i. Identifying potential material topics in respect of the Group's environmental, social and governance performance that might affect its business or stakeholders;

ii. Conducting a questionnaire survey to understand the views and expectations of stakeholders on the Group's response to and disclosure of environmental, social and governance issues;

iii. Prioritizing potential material topics based on a total of 43 valid questionnaires retrieved. By reviewing the result of the survey, the Group identifies the key issues and highlights them in the ESG Report.

Environmental, Social and Governance Report (Continued)

The following chart shows the substantive matrix derived from the result of the questionnaire survey.



Environment and Resources	Employment and Labor Practices	Operating Practices	Community Investment
1 Carbon Emission 2 Energy Management 3 Research and Development 4 Compliance with Environmental Laws and Regulations	5 Employees' Remuneration and Benefits 6 Employees' Working Hour and Rest Period 7 Diversity and Equal Opportunity 8 Occupational Health and Safety 9 Training and Education 10 Child Labor and Forced Labor 11 Compliance with Labor Laws and Regulations	12 Supplier Environmental Assessment 13 Supplier Assessment for Labor Practices and Human Right 14 Supplier Assessment for Impacts on Society 15 Customer Health and Safety 16 Marketing and Labeling 17 Customer Privacy 18 Anti-corruption 19 Compliance with Laws and Regulations Relating to the Provision and Use of Products and Services	20 Impact on the Community 21 Direct Economic Value Generated for Community

Environmental, Social and Governance Report (Continued)

By analyzing the result of the questionnaire survey, the Group has identified 4 material topics which are disclosed in detail in the ESG Report.

Material Topics		Corresponding Sections
8	Occupational Health and Safety	Cares on Employees Health and Safety
11	Compliance with Labor Laws and Regulations	Cares on Employees
15	Customer Health and Safety	Operating Practices Supply Chain Management Quality Assurance
19	Compliance with Laws and Regulations Relating to the Provision and Use of Products and Services	Operating Practices

PROTECTION TO THE ENVIRONMENT

The Group primarily designs, promotes and sells women's handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, cardholders and suitcases in the PRC. Although the Group does not manufacture products on its own, it recognizes the importance of environmental protection. We keep a close watch on the relevant local laws and regulations related to wastewater, exhaust emissions and waste, including but not limited to the Law of the PRC on Prevention and Control of Water Pollution, Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste and Law of the PRC on Prevention and Control of Atmospheric Pollution. Senhao Shanghai has provided training about environment, health and safety policy to employees and manufacturers for arousing their awareness of environmental protection.

Emission

Since the Group focuses on the development and designs of products, it engages manufacturers to produce its products and does not involve in any production process or the use of packaging material. Due to our business nature, no industrial wastewater or industrial exhaust gas is generated directly. Our wastewater is mainly domestic sewage which discharges to the municipal drainage system, while our major exhaust emissions are from vehicles. To reduce the exhaust emissions and maintain the efficiency of vehicles, Senhao Shanghai has adopted an effective fleet management. For example, Senhao Shanghai conducts regular inspection and maintenance for vehicles, as well as avoiding idling engine. During the Year, the exhaust emissions generated by the vehicles of Senhao Shanghai are as follows:

Emissions from Vehicles	2018	2017
Nitrogen oxides (kg)	0.86	1.25
Sulphur dioxides (kg)	0.03	0.04
Particulates (kg)	0.06	0.09

Environmental, Social and Governance Report (Continued)

The non-hazardous waste generated by the Group, such as general waste, is collected and processed by the local environmental hygiene department for further handling. When there is hazardous waste generated, such as waste ink cartridge and electronic waste, Senhao Shanghai will collect them separately and handle properly. For example, obsolete computers are recycled by qualified companies. During the Year, Senhao Shanghai has replaced 18 computers in the office. Other hazardous waste and non-hazardous waste generated by the Senhao Shanghai in the Year are as follows:

Wastes	2018	2017
Hazardous waste generated (kg)	3	7
Hazardous waste generated per square meter (kg/m^2)	0.004	0.01
Total non-hazardous waste generated (tonnes)	9	8
Non-hazardous waste generated per square meter (tonnes/m^2)	0.01	0.01

Resources Conservation

Striving to become an environmentally friendly corporate, we bear the responsibility to protect the environment. To reduce energy consumption, Senhao Shanghai maximizes the use of natural light, divides the office area into different light zones by using independent lighting switches and minimizes unnecessary lighting fixtures. Energy-efficient electrical appliances are installed with regular cleansing of the lighting fixtures and filters of air-conditioners to maintain the efficiency of lighting and the air-conditioning systems. Other measures are also employed to enhance the energy efficiency of air-conditioning system, such as avoiding the positioning of air-conditioners with direct sunlight exposure, applying anti-ultraviolet films on windows, as well as placing sealing strips on doors and windows, and carrying out regular leakage checks. In addition, regular monitoring on the energy consumption is carried out and appropriate follow-up will be taken if the usage is abnormal.

Employees' participation is also essential to resources conservation. To achieve our environmental targets, we always promote energy saving tips and other environmental protection measures to employees by means of emails and posters, such as switching off the lighting fixtures, air-conditioners and other electronic devices when not in use and adjusting the temperature of air-conditioners at an energy-efficient level. Senhao Shanghai allows employees to dress casually on every Friday and in hot weather, so as to minimize the use of air-conditioning. During the Year, details of energy consumption of Senhao Shanghai are as follows:

Energy Consumption	2018	2017
Total energy consumption (MWh)	133	87
Energy consumption per square meter (MWh/m^2)	0.17	0.11
Purchased electricity (MWh)	114	59
Fuel consumption of vehicles (MWh)	19	28

Environmental, Social and Governance Report (Continued)

The Group continues to raise employees' awareness on cherishing water resources, thus water saving reminders are put up in the toilet, for instance, the reminder of turning off the faucet tightly. Senhao Shanghai prefers dual-flush toilets and equipment with water-efficient labels, as well as reducing water pressure to the lowest practical level, in order to lower the water consumption. Regular water consumption monitoring and water pipe leakage tests are also conducted. For any dripping tap spotted, Senhao Shanghai will fix it promptly to prevent water wastage. The water consumption of Senhao Shanghai for the Year is as follows:

Water Consumption	2018	2017
Total water consumption (m^3)	648	298
Water consumption per square meter (m^3/m^2)	0.82	0.37

Green Operation

In consideration of potential threats brought by climate change to the communities, the Group is dedicated to advocating green operation. Besides growing plants in the office area, recycling bins are in place for collecting recyclable material, such as waste paper, metals, and plastics. The consumption of material is evaluated before the procurement of office equipment to avoid overstock. During the procurement stage, Senhao Shanghai gives priority to suppliers who obtained the certificate of environmental management system or with environmentally friendly products, if applicable. Employees are encouraged to reuse envelopes, folders, file cards and other stationery, and to reduce the use of disposable and non-recyclable products, for the purpose of waste reduction.

Furthermore, we emphasize the importance of minimizing production waste and product waste. Thus, we encourage our manufacturers to minimize the use of packaging material to the greatest extent. In respect of obsolete products, we inspect the conditions of such products and arrange product repair, as and when necessary. If the products are in good and resalable conditions, they would be sold as discounted products to our customers through e-commerce platforms or to the third party retailers who operate outlets. In respect of returned products, if they are not in good or reasonable condition, we would sell them at our employees and family sales which are opened to our employees, and their families and friends.

In pursuit of a paperless office, the Group executes information dissemination by means of electronic communication channels to reduce paper consumption and the use of ink. Senhao Shanghai has the computers and printers set to default duplex and economical modes and reminds employees to use paper on both sides and to print double-sided with reminders placed next to printers. All discarded papers, except those printed with confidential information, are recycled by waste paper recycling companies. The removal of greenhouse gas emissions from recycling paper by Senhao Shanghai in the Year amounts to 27 kg CO_2e. Moreover, Senhao Shanghai monitors paper consumption and printing volume regularly with a print quota set for users when necessary.

Environmental, Social and Governance Report (Continued)

Our commitment to reducing greenhouse gas emissions across the business can also be reflected by holding video conferences in place of any unnecessary overseas business travel, while direct flights are chosen for inevitable business travel. The Group advocates the selection of low-carbon or local food and easily accessible locations when organizing activities, while employees are encouraged to travel by public transport and participate in events held by green groups, so as to reduce the carbon footprint. Moreover, we optimize the routes of transportation and goods delivery for third-party logistics service providers. During the Year, the greenhouse gas emissions of Senhao Shanghai are as follows:

Greenhouse Gases	2018	2017
Total greenhouse gas emissions (tonnes CO_2e)	**111**	70
Greenhouse gas emissions per square meter (tonnes CO_2e/m^2)	**0.14**	0.09

CARES ON EMPLOYEES

Hiring, motivating and retaining qualified employees are always crucial to the Group's success as an online and offline distributor. The Group strictly complies with the local laws and regulations regarding employment, employee benefits, labor standards, and occupational health and safety, including but not limited to the Employment Ordinance and Occupational Safety and Health Ordinance of Hong Kong, as well as the Labor Law of the PRC, Labor Contract Law of the PRC and Law of the PRC on the Prevention and Control of Occupational Diseases. We are dedicated to creating a harmonious, comfortable and injury-free workplace by understanding employees' needs, protecting their rights and safeguarding them from harms.

Health and Safety

The Group attaches great importance to the protection of health and safety of employees and closely observes the relevant local laws and regulations. Contributions are made to labor insurance for our employees in Hong Kong, while extra accident insurance and medical insurance are offered to employees in the PRC, so as to prevent and control occupational diseases. New employees in the PRC are officially on duty after the completion of physical checkups; in the meantime, existing employees undergo physical checkups annually.

Senhao Shanghai provides employees and manufacturers training on environment, health and safety policy for enhancing their safety awareness and skills, and getting familiar with relevant industrial health and safety knowledge. To achieve an injury-free workplace, personal protection equipment is given to employees according to the needs of the job position. Employees should also follow the safety rules and fire prevention measures, and maintain a clean and organized workplace. In case of any emergency, Senhao Shanghai has prepared an emergency plan for employees to evacuate safely, and its employees are provided with stringent first aid training.

Environmental, Social and Governance Report (Continued)

Employment and Welfare

A non-discrimination policy is adopted throughout our entire hiring process for the sake of respecting cultural and individual diversity. All applicants receive equal opportunities and are considered solely based on their academic knowledge, abilities and relevant work experience, regardless of age, gender, nationality, pregnancy or disability. Once employed, new employees are required to provide copies of identification documents for age verification to prevent child labor. To avoid any form of forced labor, we ensure employees clearly understand their job positions and entitled welfare before signing the employment contract. Employees are on duty in accordance with the laws and regulations relating to working hours and are given sufficient rest. If employees are required to work overtime, they will be offered overtime payment or compensation leave in line with our internal policies. Outstanding wages will be paid to resigned employees on time, conforming to the relevant local laws and regulations, and exit meetings will be held to understand their reasons for leaving.

As at 31 December 2018, the Group had 88 employees, who are all permanent employees, in Hong Kong and PRC and the numbers of employees categorized by age group, gender, and geographic region are as follows:

Number of Employees	2018	2017
By Age Group		
Below 30 years old	16	27
Between 30 to 50 years old	67	71
Over 50 years old	5	2
By Gender		
Female	66	78
Male	22	22
By Geographic Region		
Hong Kong	9	8
PRC	79	92

The Group endeavors to offer its employees attractive remuneration packages, which include salaries, bonus, retirement benefit scheme contributions, and other benefits. Our remuneration policies, covering promotion, bonus, salary increment, and other benefits, are formulated on the basis of operating results of the Group, employees' individual performance, working experience, respective responsibilities, merits, qualifications, and competence, and are comparable to the prevailing market practice, standards and statistics. The remuneration policies are regularly reviewed by our management as well. Contributions are made to different insurances according to the local laws and regulations. For instance, Senhao Shanghai pays "Five Social Insurances and One Housing Fund" for employees, including basic endowment insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and the Housing Provident Fund. Apart from public holidays, employees are entitled to annual leave, marriage leave, funeral leave, maternity leave and paternity leave.

We also highly value the work-life balance of employees, thus leisure activities and sports events are often held for employees' pleasure. During the Year, Senhao Shanghai has organized birthday parties and scheduled an employee outing to Hulunbuir in Inner Mongolia of the PRC.

Environmental, Social and Governance Report (Continued)

Training and Development

In order to build an excellent team that is capable of coping with the rapid development and efficient operation of the Group, we conduct regular appraisals of employees' working performance and capability. Promotion is executed in terms of the abilities of employees on a fair basis. To facilitate new employees' adaptation to the job, orientation in relation to our policies, structure and brand history is provided to new employees, while a senior shop assistant is assigned to acquaint new shop assistant with the operation practice in retail shops. Apart from annual internal training, product-related training is organized before launching a new product. Subsidies are given to employees who are in pursuit of relevant professional qualifications related to the industry or their job positions. With respect to the development of our designers, they regularly visit local and international fashion centers, attend various trade and/or fashion exhibition, and actively observe trends, while seeking inspiration through various channels, including fashion shows, exhibitions and magazines, to acquire experience, as well as keeping abreast of the latest fashion trends and seasonal theme.

OPERATING PRACTICES

Since the Group primarily designs, promotes and sells women's handbags, small leather goods, and travel goods in the middle-end women's handbag market, we have operated in compliance with relevant laws and regulations in regard to retail industry, including but not limited to the Trade Description Ordinance, Trade Marks Ordinance, Copyright Ordinance and Prevention of Bribery Ordinance of Hong Kong, as well as the Law of the PRC on Protection of Consumer Rights and Interests, Trademark Law of the PRC, Advertising Law of the PRC, Product Quality Law of the PRC and Criminal Law of the PRC.

In pursuit of trendy handbags and services of high quality, rigorous supply chain management, and quality control procedures have been implemented. As a client-oriented corporate, we strictly uphold our business ethics when dealing with customers, especially integrity and honesty. We respect others' copyrights and do not tolerate any infringement during the product design. Meanwhile, factual trade description is provided to consumers during our sales and advertisement.

Supply Chain Management

The Group strategically focuses its resources on the design and development of products, promotion of the brands and management of sales network. Having considered the capital investment needed in establishing and operating a factory for manufacturing products, we decided to engage suppliers as our products' manufacturers. Suppliers are generally responsible for procurement of raw materials for the manufacture of our products. Internal measures are implemented to govern the selection and evaluation of suppliers and to monitor their continuous performance.

In the event of engaging a new supplier, our quality control team from product design and development department will conduct on-site examinations of the candidate supplier's facilities to assess its production and technical capabilities, and working conditions of the manufacturing facilities, in order to ensure compliance with our manufacturing standards. We also request candidate suppliers to provide sample products for examination. Only those suppliers who pass our examinations will be selected. Regular reviews on suppliers' performance are also undertaken in different terms, such as on-time delivery, maintenance rate and return rate.

Environmental, Social and Governance Report (Continued)

Providing products of high quality and safety depends on the selection of suitable suppliers to a certain extent. Whenever we finalize the product designs for the upcoming season, we select suppliers from our existing network based on various requirements, including the complexity of product design, experience of suppliers, level of craftsmanship, production capacity and effectiveness of quality control. Priority will be given to the suppliers who provide environmentally friendly products or obtain the certificate of environmental management system when applicable, so as to minimize the environmental impact. On the other hand, stringent selection of service providers of warehouse and logistic are conducted. The service provider of the warehouse is considered based on its location, environment, and equipment, while the logistics company is selected according to its delivery, management and performance pledge.

Apart from selling products directly through our online and offline retail points, third-party retailers are engaged for the products sales through their own online or offline retail points. Therefore, we implement standard procedures for our retailer-operated retail points and enter into cooperation agreements with third-party retailers. We select third-party retailers conscientiously based on their background, industry experience, scale of operation, financial condition, reputation, and retail point location. Regular monitoring, review and assessment on the sales, financial, and operational performance of third-party retailers are undertaken in order to ensure the end customers enjoy wonderful shopping experience from the third-party retailers. The third-party retailers are also required to install our information management system and provide us with sales data on a weekly or monthly basis for a better understanding of their performance.

Quality Assurance

Our brand portfolio comprises of two brands, which are tailored to the preferences of consumers in varying age groups, including the licensed brand, ELLE, and the self-owned brand, Jessie & Jane. In order to design trendy and appealing products and keep abreast with the latest fashion trends and seasonal theme, our designers regularly visit local and international fashion centers, attend various trade and/or fashion exhibition, and actively observe trends, while seeking inspiration through various channels, including fashion shows, exhibitions, and magazines. After forming product plans with market researches and planning conducted, the design team will create product designs, and designers will select raw materials and instruct the manufacturers to produce product prototypes. During the time of our review and comment on the prototypes, the licensor reviews modifies and/or approves our designs for ELLE products before launching the products.

As we engage manufacturers to produce the products, we place a strong emphasis on product quality and safety by implementing quality control measures to ensure the finished products produced by manufacturers are of high standard. We examine the quality of raw materials purchased by manufacturers on a sampling basis, perform our testing and have the raw materials tested by third-party laboratories, while our quality control personnel visits the production facilities of manufacturers before commencing product manufacturing, in order to ensure that the raw materials are up to our quality control standard and to control the potential safety hazards. Also, various quality checks are carried out by our on-site quality control personnel throughout the production process, including on-site inspections, examination of semi-finished products and finished products, and testing on finished products on a sampling basis, to assure the products manufactured are of good condition and consistent quality. If any defects or irregularities are discovered, we will review the findings and follow up with the manufacturers. After the manufacturing process, manufacturers are responsible for packing the finished products according to our instructions. Our quality control personnel will inspect the packaging afterward on a sampling basis to ensure that the packaging of finished products is up to our requirements and specifications.

Environmental, Social and Governance Report (Continued)

Besides, we have a clear operation guideline for our retail employees to assure that the quality of services provided by our retail employees is up to standard. We also engage online store operators for their IT support, customer service, and delivery service, so as to facilitate the operation of the self-operated online retail points. The online store operators assist us to upload information and design our online stores' websites and/or third-party-operated e-commerce platforms. When an end customer purchases products from our self-operated online retail points, online store operators will arrange the delivery. To ensure that finished products are delivered to our warehouse and sales network on time, we keep close communication with the manufacturers, third party retailers, and third party logistics companies regarding the time of delivery.

Further to the quality of services provided by third-party retailers, we conduct on-site supervision to the retailer-operated retail points from time to time to make sure they are operated in accordance with our policies and operational procedures. We place great emphasis on the training of employees at retail points, and provide in-house training on various retail operation matters to the third party retailers. The moment when an employee joins the third party retailers or before the commencement of their work at retailer-operated retail points, such training is conducted.

After Sales Services

Apart from the rigorous quality control procedures, we also provide top quality after sales services. For the products sold through third-party e-commerce platforms, customers are entitled to return the products within 7 days of receipt without giving a reason. For our products sold through the offline retail points operated by the Group or third party retailers, end consumers are generally allowed to return the products within 7 days without giving a reason, provided that the products are in saleable condition when returned. If there is any product quality issue, we would allow returning the products within 90 days after purchased.

To further enhance customer satisfaction, we provide life-long maintenance service for the leather products of ELLE to our customers and only charge for the material costs. The online store operators are engaged to assist us to reply our end customers' queries about our products and services on a daily basis on our behalf, while a department is designated for handling complaints from our customers or third-party retailers. A well-established complaint handling procedure is implemented as follows:

Most of the complaints received in the Years were solved by repairing by manufacturers, while the remaining cases were caused by man-made loss or natural loss. If there is any product defect issue within the product warranty period, which is six months after the delivery of products by manufacturers to us, we would arrange the return of products to the manufacturers.

Observation of Intellectual Property Rights

Our licensed brand, ELLE, and our self-owned brand, Jessie & Jane, trademarks and other intellectual property rights are the keys to our success. To observe the intellectual property rights of the Group and other parties, we continue to abide by the laws and regulations related to intellectual property rights. Intellectual property protection clauses are set out in the agreements with our suppliers, third-party retailers, and others, for instance limiting the number of brand labels used by the manufacturers, so as to protect our trademarks and other intellectual property rights. Meanwhile, we respect intellectual property rights and do not tolerate any breach of third parties' copyrights.

Environmental, Social and Governance Report (Continued)

Protection of Data and Privacy

The Group always conforms to the laws and regulations in relation to data and privacy protection. Employees maintain the Group's information with the highest degree of confidentiality, including the information of sales, research and development and all sensitive information from clients. In the meantime, employees should refrain from disclosing any confidential information to third parties without our consent. Confidentiality clauses are listed in the agreements with suppliers, third-party retailers, and other business partners to protect the trade secrets of both sides. In addition, we are committed to protecting our software system away from the virus by prohibiting employees to download software not related to work.

Anti-corruption

The Group upholds integrity throughout its operation and closely observes the laws and regulations regarding anti-corruption. Under the policy of conflict of interest, employees are strictly forbidden to undertake any activity which collides or competes with the interests of the Group during the employment. Employees are also required to make a declaration on any possible conflict of interest. During the Year, the Group has no legal cases regarding corrupt practices.

CONTRIBUTION TO COMMUNITY

The Group spared no efforts in making contributions to the community. We strive to encourage our employees to participate in different charitable events. In the future, we will continue to make a contribution to the community in various ways, so as to help the underprivileged.

CONTENT INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

ESG Indicators	Summary	Sections	Page
Environmental			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Protection to The Environment Emission	33
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.	Protection to The Environment Resources Conservation	34

Environmental, Social and Governance Report (Continued)

ESG Indicators	Summary	Sections	Page
Aspect A3: The Environment and Natural Resources	**General Disclosure** Policies on minimizing the issuer's significant impact on the environment and natural resources.	Protection to The Environment Green Operation	35
Social			
Employment and Labor Practices			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Cares on Employees Employment and Welfare Training and Development	37—38
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Cares on Employees Health and Safety	36
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Cares on Employees Training and Development	38
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Cares on Employees Employment and Welfare	37

Environmental, Social and Governance Report (Continued)

ESG Indicators	Summary	Sections	Page
Operating Practices			
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.	Operating Practices Supply Chain Management	38–39
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Operating Practices Quality Assurance After Sales Services Observation of Intellectual Property Rights Protection of Data and Privacy	39–41
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the prevention of bribery, extortion, fraud and money laundering.	Operating Practices Anti-corruption	41
Community			
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Contribution to Community	41

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as exempted company with limited liability on 6 January 2017.

The Company completed the corporate reorganisation (the "Reorganisation") on 4 December 2017 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising the Group.

Details of the Reorganisation are set out in paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Development" in the Prospectus. The Shares were listed on GEM of the Stock Exchange on 16 January 2018 by way of placing and public offer.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in provision of design, promote and sell women's handbags, small leather goods and travel goods in the PRC. Details of the principal activities and other particulars of the subsidiaries are set out in note 14 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management's Discussion and Analysis set out on pages 6 to 13 and "Environmental, Social and Governance Report" on page 29 to 43 of this Annual Report. This discussion forms part of this Directors' Report.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 5 to the consolidated financial statements.

There is no significant event affecting the Group that has occurred after the year ended 31 December 2018. The Group has strictly complied with relevant laws and regulations which have a significant impact on the operations of the Group during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 63 to 129.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2018 (2017: Nil).

Directors' Report (Continued)

DIVIDEND POLICY

The Company has adopted a dividend policy. The Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's current and future operations, actual and expected financial performance;

(b) the Group's liquidity position, working capital and capital expenditure requirements and future expected capital needs;

(c) any corporate development plans;

(d) any restrictions on payments of dividends that may be imposed by the Group's lenders or other third parties;

(e) the level of the Group's debt to equity ratio, return on equity and the relevant financial covenants;

(f) retained earnings and distributable reserves of the Company and each of the members of the Group;

(g) general economic conditions, the business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(h) any other factor that the Board deems appropriate and relevant.

The declaration and payment of dividends by the Company is also subject to any restrictions under the Laws of the Cayman Islands, the articles of association of the Company and any applicable laws, rules and regulations.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company has RMB32.9 million reserves available for distribution calculated in accordance with the statutory provisions of the Cayman Islands (2017: Nil).

Directors' Report (Continued)

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

Social responsibility is an important part of how we do business. We work towards making a positive impact on the welfare of our employees, customers and suppliers. In relation to the environmental, social and governance performance of the Company during the year ended 31 December 2018, please refer to the Environmental, Social and Governance Report on pages 29 to 43 of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws/articles of association and there was no restriction against such rights under the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Shares were listed on the GEM of the Stock Exchange on 16 January 2018. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018 and up to the date of this report.

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.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last four financial years is set out on page 130 of this annual report.

Directors' Report (Continued)

DIRECTORS OF THE COMPANY

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors

Mr. Yau Frederick Heng Chung
Mr. Lee Tat Fai Brian
Mr. Yip Chun Wai

Non-Executive directors

Mr. Yau Sonny Tai Nin
Mr. Yau Tai Leung Sammy

Independent non-executive directors

Mr. Won Chik Kee	
Mr. Feng Dai	
Ms. Sit Ting Fong	(appointed on 31 January 2019)
Mr. Tong Raymond Kwok Kong	(resigned on 31 January 2019)

Pursuant to Article 105 of the Articles of Association, Mr. Yau Sonny Tai Nin, Mr. Yau Tai Leung Sammy and Mr. Yau Frederick Heng Chung, will retire from office by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

Pursuant to Article 109 of the Articles of Association, Ms. Sit Ting Fong will retire from office at the Annual General Meeting and, being eligible, will offer herself for re-election.

Mr. Won Chik Kee and Mr. Feng Dai are independent non-executive directors and were all appointed for a two-year term commencing on 15 December 2017. Ms. Sit Ting Fong was newly appointed as independent non-executive director with effect from 31 January 2019 for a two-year term.

Each of the independent non-executive Directors has confirmed in writing his/her independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors are independent to the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, being Mr. Yau Frederick Heng Chung, Mr. Lee Tat Fai Brian and Mr. Yip Chun Wai, entered into a service agreement with the Company on 15 December 2017 for an initial term of 3 years commencing from 15 December 2017.

Each of the non-executive Directors, being Mr. Yau Sonny Tai Nin and Mr. Yau Tai Leung Sammy, entered into a letter of appointment with the Company on 15 December 2017 for a term of 2 years commencing from 15 December 2017, which may be terminated by not less than 3 months' notice in writing served by either party on the other.

Each of the independent non-executive Directors, being Mr. Won Chik Kee, Mr. Feng Dai and Ms. Sit Ting Fong, has entered into a letter of appointment with the Company on 15 December 2017, 15 December 2017 and 31 January 2019, respectively, for a term of 2 years commencing from 15 December 2017, 15 December 2017 and 31 January 2019, which may be terminated by not less than 3 months' notice in writing served by either party on the other.

Directors' Report (Continued)

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Apart from the contracts and agreements relating to the Reorganisation and saved as disclosed in this report, there was no transaction, arrangement or contract of significance to which the Company or any related companies (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

The Directors confirm that none of the controlling shareholders, namely Mr. Yau Sonny Tai Nin, Mr. Yau Frederick Heng Chung, Mr. Yau Tai Leung Sammy, Ms. Yau Nicholas Heng Wah, Ms. Hiang Siu Wei Cecilia and Yen Sheng BVI (the "Controlling Shareholders"), the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by our Group which competes or is likely to compete, directly or indirectly, with our Group's business during the year ended 31 December 2018 and up to the date of this report.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 15 December 2017. Under the Share Option Scheme, the eligible participants of the scheme, including directors, fulltime employees of and advisers and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on 16 January 2018, the date of Listing. The Share Option Scheme will remain in force for a period of 10 years commencing on 15 December 2017.

No share option has been granted, exercised, lapsed or cancelled under the Share Option Scheme during the year and there was no share option outstanding as at 31 December 2018.

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all Shareholders on 15 December 2017:

(i) Purpose of the scheme

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the GEM Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

Directors' Report (Continued)

(ii) Who may join

Our Directors (which expression shall, for the purpose of this paragraph 18, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the "Invested Entity") in which our Group holds an equity interest;

(bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of our Group or any Invested Entity;

(dd) any customer of any member of our Group or any Invested Entity;

(ee) any person or entity that provide research, development or other technological support to any member of our Group or any Invested Entity;

(ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purpose of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' option as to his contribution to the development and growth of our Group.

(iii) Maximum number of Shares

(aa) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the issued share capital of our Company from time to time.

(bb) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on GEM (the "General Scheme Limit").

Directors' Report (Continued)

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to our Shareholders shall contain, among other information, the information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 23.03(9) of the GEM Listing Rules.

(v) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vi) Subscription price for Shares and consideration for the option

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK$1 is payable on acceptance of the grant of an Option.

Directors' Report (Continued)

(vii) **Period of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY, ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the Company's shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO); or pursuant to section 352 of the SFO to be entered in the register referred to therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors and to be notified to the Company and the Stock Exchange were as follows:

(i) Long position in the Shares

Name of director	Capacity/Nature of interest	Number of shares held/ interested in	Percentage of interest in the Company
Mr. Yau Tai Leung Sammy (Note)	Interests held jointly with other persons; Interest in a controlled corporation	291,838,960	52.1141%
Mr. Yau Sonny Tai Nin (Note)	Interests held jointly with other persons; Interest in a controlled corporation	291,838,960	52.1141%

Note: Yen Sheng Investment Limited ("Yen Sheng BVI") was beneficially owned by Mr. Yau Tai Leung Sammy and Mr. Yau Sonny Tai Nin as to approximately 49.3120% and 49.2321%, respectively. By virtue of the SFO, Mr. Yau Tai Leung Sammy and Mr. Yau Sonny Tai Nin are deemed to be interested in all the Shares held by Yen Sheng BVI.

(ii) Long position in the ordinary shares of associated corporations

Name of director	Position in the associated corporations	Percentage of interest in the associated corporation
Mr. Yau Tai Leung Sammy	Director of Yen Sheng BVI	49.31% in Yen Sheng BVI
Mr. Yau Sonny Tai Nin	Director of Yen Sheng BVI	49.23% in Yen Sheng BVI
Mr. Yau Frederick Heng Chung	Director of Yen Sheng BVI	0.69% in Yen Sheng BVI

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

Directors' Report (Continued)

DIRECTOR'S RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or an body corporate, and none of the Directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company), would have interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Long/Short position	Nature of interest	Shares held	Percentage of shareholding
Yen Sheng Investment Limited ("Yen Sheng BVI")	Long position	Beneficial owner	291,838,960	52.1141%
Yau Tai Leung Sammy (Note 1)	Long position	Interests held jointly with other persons; Interest in a controlled corporation	291,838,960	52.1141%
Chan Yee Ling Elaine (Note 2)	Long position	Interests of spouse	291,838,960	52.1141%
Yau Sonny Tai Nin (Note 1)	Long position	Interests held jointly with other persons; Interest in a controlled corporation	291,838,960	52.1141%
Hiang Siu Wei Cecilia (Note 3)	Long position	Interests of spouse	291,838,960	52.1141%
Summit Time Resources Limited	Long position	Beneficial owner	128,161,040	22.8859%
Li Wing Chi Agnes (Note 4)	Long position	Interest in a controlled corporation	128,161,040	22.8859%
Lee Shui Kwai Victor (Note 5)	Long position	Interests of spouse	128,161,040	22.8859%

Notes:

1. Yen Sheng BVI was beneficially owned by Mr. Yau Tai Leung Sammy and Mr. Yau Sonny Tai Nin as to approximately 49.3120% and 49.2321%, respectively. By virtue of the SFO, Mr. Yau Tai Leung Sammy and Mr. Yau Sonny Tai Nin are deemed to be interested in all the Shares held by Yen Sheng BVI.

Directors' Report (Continued)

2. Ms. Chan Yee Ling Elaine is the spouse of Mr. Yau Tai Leung Sammy. By virtue of the SFO, Ms. Chan Yee Ling Elaine is deemed to be interested in all the Shares held by Mr. Yau Tai Leung Sammy.

3. Ms. Hiang Siu Wei Cecilia is the spouse of Mr. Yau Sonny Tai Nin. By virtue of the SFO, Ms. Hiang Siu Wei Cecilia is deemed to be interested in all the Shares held by Mr. Yau Sonny Tai Nin.

4. Summit Time Resources Limited was wholly owned by Ms. Li Wing Chi Agnes. By virtue of the SFO, Ms. Li Wing Chi Agnes is deemed to be interested in all the Shares held by Summit Time Resources Limited.

5. Mr. Lee Shui Kwai Victor is the spouse of Ms. Li Wing Chi Agnes. By virtue of the SFO, Mr. Lee Shui Kwai Victor is deemed to be interested in all the Shares held by Ms. Li Wing Chi Agnes.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The information on purchases and sales for the year attributable to the Group's major suppliers and customers is as follows:

	Percentage of the Group's total	
	Purchases	**Sales**
The largest supplier	61.4%	—
Five largest suppliers combined	91.6%	—
The largest customer	—	5.5%
Five largest customers combined	—	17.3%

At no time during the year, the directors, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's number of issued shares) had any interest in these major suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

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

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Directors' Report (Continued)

CONNECTED TRANSACTIONS

During the year, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules.

Connected Transaction

During the year, the Group no longer obtained sampling services from Macia Company Limited ("Macia (Hong Kong)") and paid sample costs. Also, the shareholder of China Logistics Company Limited disposed the interest in Shanghai Xuandi Trading Company Limited which has provided storage and logistic services, as well as marketing services to the company. Further details of the transactions are included in note 29 to the consolidated financial statements.

EXEMPTED CONTINUING CONNECTED TRANSACTION

On 1 January 2016, a tenancy agreement was entered into between Unigrade International Limited (as landlord), a company incorporated in Hong Kong and wholly owned by Lee Sang Investment Company, Limited, and Sling Incorporated Limited (as tenant), in respect of a property situated at Unit 1, 21st Floor, Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, Hong Kong, for a term of 36 months commencing on 1 January 2016 and ending on 31 December 2018 (both days inclusive) at a monthly rental of HK$24,030. There is no option to renew the tenancy agreement. Based on the fixed monthly rent under the tenancy agreement, the annual cap in respect of the annual rental payable by our Group to Unigrade International Limited for each of the two years ended 31 December 2018 will be RMB255,722. Each of the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules calculated with reference to the rental annual cap is less than 5% and the annual consideration is less than HK$3,000,000. Accordingly, the entering into of the tenancy agreement constitutes an exempt continuing connected transaction of our Company under Rule 20.74 of the GEM Listing Rules, and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Manufacturing Services

Dongguan Taiheng Handbags Company Limited ("Dongguan Taiheng") had provided the services of producing samples and manufacturing of women's handbags, small leather goods and travel goods (the "Manufacturing Services") to our Group. Dongguan Taiheng was wholly owned by Tai Heng Factory Limited, which was in turn owned by Macia (Hong Kong) and Ms. Cecilia Hiang as to approximately 99.99% and 0.01%, respectively. Macia (Hong Kong) was owned by Ms. Cecilia Hiang, Mr. Sammy Yau and Mr. Sonny Yau as to 50.0%, 49.0% and 1.0%, respectively. Further, (i) Mr. Sammy Yau is our non-executive Director; (ii) each of Mr. Sammy Yau and Ms. Cecilia Hiang is one of our Controlling Shareholders; and (iii) Mr. Sammy Yau is a director of Sling Incorp. Pursuant to the GEM Listing Rules, Dongguan Taiheng is an associate of each of Mr. Sammy Yau and Ms. Cecilia Hiang and is therefore a connected person of our Company.

Directors' Report (Continued)

On 15 December 2017, Dongguan Taiheng and Sling Investment Limited ("Sling BVI") (on its own behalf and as trustee for the benefit of other members of our Group) entered into a manufacturing agreement (the "Manufacturing Agreement") pursuant to which Dongguan Taiheng will produce samples and manufacture women's handbags, small leather goods and travel goods for our Group upon receipt of placing orders from us, for a term commencing from 15 December 2017 and ending on 31 December 2019. Sling BVI has an option to renew the Manufacturing Agreement for a further period of three years, and for each exercise of a renewal option by Sling BVI, Dongguan Taiheng will be deemed to have granted a new option to Sling BVI for a further extension of three years on terms to be negotiated between the parties on a fair and reasonable basis and on the condition that all applicable disclosure and/or Shareholders' approval requirements under the GEM Listing Rules shall have been complied with by our Company.

The prices payable by our Group under the Manufacturing Agreement will be determined based on the ordinary course of business, on commercial terms and a fair and reasonable basis, taking into account the general market conditions. Our Group will pay Dongguan Taiheng a purchase price per Individual Order in accordance with the quantity of order placed, the raw materials required for the relevant goods to be produced and the level of workmanship required.

We will obtain quotations from three potential suppliers, of which one would be Dongguan Taiheng and the other two would be Independent Third Parties, and will compare and negotiate terms of quotations with the suppliers. We require our suppliers to provide detailed cost breakdown of producing our products, which enables us to assess the prices and consumption of material required for production of our women's handbags. We will determine whether or not the purchase price per Individual Order is reasonable with reference to the pricing information from other suppliers who are Independent Third Parties, in relation to the manufacturing and production of similar quantity and type of products.

We require a reliable and efficient manufacturer for making samples of products that reflect our intended design and quality. With over 10 years business engagement, the Group considers the quality of finished goods produced by Dongguan Taiheng was in line with the design, product specifications and our expectations. The Manufacturing Services provided by Dongguan Taiheng is reliable and is beneficial to our Group and allow us to maintain the quality of the products that we are selling to customers.

Our Group has set annual caps on procurement from Dongguan Taiheng for the three years ended/ending 31 December 2019 that the total amount will not be more than RMB14,200,000, RMB15,500,000 and RMB16,900,000, respectively.

During the year ended 31 December 2018, procurement from Dongguan Taiheng by the Group amounted to RMB3.1 million.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that the transactions have been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged its auditors 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 Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 20.54 of the GEM Listing Rule. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Directors' Report (Continued)

NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

Each of the controlling Shareholders, namely Yen Sheng Investment Limited, Mr. Yau Sonny Tai Nin, Mr. Yau Tai Leung Sammy, Mr. Yau Frederick Heng Chung, Mr. Yau Nicholas Heng Wah and Ms. Hiang Siu Wei Cecilia, entered into the Non-Competition Undertaking in favour of the Company on 15 December 2017 (the "Undertaking"), details of which have been set out in the prospectus of the Company dated 29 December 2017.

The Company has received an annual confirmation from the controlling Shareholders in respect of their compliance with the non-competition undertakings under the Undertaking for the year ended 31 December 2018. The independent non-executive Directors have also reviewed the compliance and enforcement of the non-competition undertakings under the Undertaking by the controlling Shareholders and confirmed that the controlling Shareholders have not been in breach of the Undertaking during the year.

PERMITTED INDEMNITY PROVISION

Subject to the applicable laws, every director of the Group's companies shall be entitled to be indemnified by the relevant company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto pursuant to their respective Articles of Associations. Such provisions are put in force after the Listing and remained in force as of the date of this report. The Company has maintained liability insurance to provide appropriate cover for the directors of the Company and its subsidiaries.

CORPORATE GOVERNANCE

Information on the corporate government practices adopted by the Company is set out in the "Corporate Governance Report" on pages 18 to 28 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

As from 31 December 2018 to the date of this report, save as disclosed in this report, the Board is not aware of any significant events requiring disclosure that have occurred.

Directors' Report (Continued)

AUDITORS

The Company's auditors, Grant Thornton Hong Kong Limited, retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. The Board has taken the recommendation of the Audit Committee that a resolution for the re-appointment of Grant Thornton Hong Kong Limited, as the independent auditors of the Company will be proposed at the forthcoming annual general meeting. There is no change in auditor since the date of the Listing.

On behalf of the board
Sling Group Holdings Limited
Yau Frederick Heng Chung
Chairman

Hong Kong

21 March 2019

Independent Auditor's Report

Grant Thornton
致同

To the members of Sling Group Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sling Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 129, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

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

Key Audit Matter

Valuation of inventories

Refer to significant accounting policies in note 2.8, sources of estimation uncertainty in note 4.1 and note 17 to the consolidated financial statements.

As at 31 December 2018, the Group had inventories of approximately RMB38,888,000 net of RMB1,137,000 impairment provision.

Inventories are carried at the lower of cost and net realisable value.

The Group estimates the net realisable value of inventories based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period.

We focused on this area because of the estimation of the net realisable value of inventories involved a high level of management judgement. These estimations are also subjected to uncertainty as a result of changes in market conditions.

How the matter was addressed in our audit

Our audit procedures in relation to the assessment of management's estimate of impairment of inventories are as follows:

- Understood and evaluated the basis of estimation of the net realisable value of inventories through discussion with management on the general pattern of the Group's product lifecycle, marketing and retail pricing strategy, sales forecast of each individual stock keeping units ("SKUs") on a season by season basis and latest market conditions;

- Re-calculated on a sample basis, the inventory provision made on individual SKUs;

- Reviewed and analysed the ageing of inventories;

- Checked, on a sample basis, the volume and price of future sales of inventories by reviewing the volume and price of inventories sold subsequent to the end of reporting period; and

- Assessed the sufficiency of impairment where the estimated net realisable value is lower than the cost.

Based on the procedures performed, we consider management's judgement and estimate in assessment of the net realisable value of inventories, to be supported by available evidence.

Independent Auditor's Report (Continued)

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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 directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagements 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)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with the Audit Committee 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.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

21 March 2019

Lin Ching Yee Daniel
Practising Certificate No.: P02771

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	5	141,081	208,983
Cost of sales		(64,315)	(91,063)
Gross profit		76,766	117,920
Other revenue and income	6	6,607	2,888
Government grants		3,086	—
Selling and distribution costs		(64,162)	(75,699)
Administrative and other operating expenses		(27,470)	(22,548)
Listing expenses		(106)	(13,169)
Finance costs	7	(227)	(755)
(Loss)/Profit before income tax	8	(5,506)	8,637
Income tax credit/(expense)	9	245	(4,798)
(Loss)/Profit for the year		(5,261)	3,839
Other comprehensive income			
Item that may be reclassified subsequently to the profit or loss:			
Exchange differences on translation of foreign operations		2,850	1,062
Total comprehensive (expense)/income for the year attributable to equity holders of the Company		(2,411)	4,901
		RMB cents	RMB cents
(Loss)/Earnings per share for (loss)/profit attributable to equity holders of the Company			
Basic and diluted	12	(0.95)	0.91

Note: The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 69 to 129 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	2,236	1,483
Intangible assets	15	3,322	2,723
Financial asset at fair value through profit or loss ("FVTPL")	16	320	—
Available-for-sale financial asset	16	—	199
Deferred tax assets	24	3,144	863
		9,022	5,268
Current assets			
Inventories	17	38,888	45,023
Trade and other receivables	18	25,182	35,746
Amounts due from Controlling Shareholders	19a	9	9
Income tax recoverable		51	218
Restricted cash	20	242	188
Cash and bank balances	20	17,746	18,958
		82,118	100,142
Current liabilities			
Trade and other payables	21	17,463	45,219
Contract liabilities	22	802	—
Bank borrowings	23	6,147	26,395
Amount due to the then immediate holding company	19b	10	8
Income tax payable		733	3,816
		25,155	75,438
Net current assets		56,963	24,704
Net assets		65,985	29,972

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
EQUITY			
Share capital	25	**4,470**	9
Reserves	26	**61,515**	29,963
Total equity attributable to equity holders of the Company		**65,985**	29,972

Yau Frederick Heng Chung
Director

Lee Tat Fai Brian
Director

Note: The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 69 to 129 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company						
	Share capital RMB'000 (note 25)	Share premium* RMB'000 (note 26)	Capital reserve* RMB'000 (note 26)	Statutory reserve* RMB'000 (note 26)	Translation reserve* RMB'000	Retained profits* RMB'000	Total equity RMB'000
As at 1 January 2017	—	—	10,520	—	(1,718)	16,260	25,062
Profit for the year	—	—	—	—	—	3,839	3,839
Other comprehensive income:							
Exchange differences on translation of foreign operations	—	—	—	—	1,062	—	1,062
Total comprehensive income for the year	—	—	—	—	1,062	3,839	4,901
Issuance of share capital upon incorporation	—	—	—	—	—	—	—
Increase in issuance of ordinary shares	9	—	—	—	—	—	9
Transfer to statutory reserve	—	—	—	220	—	(220)	—
Transactions with equity holders	9	—	—	220	—	(220)	9
As at 31 December 2017	9	—	10,520	220	(656)	19,879	29,972
As at 1 January 2018	9	—	10,520	220	(656)	19,879	29,972
Adjustment from the adoption of HKFRS 9 (note 3)	—	—	—	—	—	(1,063)	(1,063)
Adjusted as at 1 January 2018	9	—	10,520	220	(656)	18,816	28,909
Loss for the year	—	—	—	—	—	(5,261)	(5,261)
Other comprehensive income:							
Exchange differences on translation of foreign operations	—	—	—	—	2,850	—	2,850
Total comprehensive expense for the year	—	—	—	—	2,850	(5,261)	(2,411)
Issuance of ordinary shares pursuant to the Share Offer	1,117	46,935	—	—	—	—	48,052
Issuance of ordinary shares pursuant to the Capitalisation Issue	3,344	(3,344)	—	—	—	—	—
Expenses incurred in connection with the issuance of ordinary shares	—	(8,565)	—	—	—	—	(8,565)
Transfer to statutory reserve	—	—	—	568	—	(568)	—
Transactions with equity holders	4,461	35,026	—	568	—	(568)	39,487
As at 31 December 2018	4,470	35,026	10,520	788	2,194	12,987	65,985

Note: The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

* The reserve accounts comprise the Group's reserves of RMB61,515,000 (2017: RMB29,963,000) in the consolidated statement of financial position.

The notes on pages 69 to 129 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
(Loss)/Profit before income tax		(5,506)	8,637
Adjustments for:			
Amortisation of intangible assets	8	197	88
Depreciation of property, plant and equipment	8	895	711
Write-down of inventories to net realisable value	8	—	706
Reversal of write-down of inventories to net realisable value	8	(169)	—
Fair value gains on financial asset at FVTPL	8	(102)	—
Credit losses of financial assets at amortised cost, net	8	203	—
Losses on written-off of property, plant and equipment	8	31	11
Unrealised exchange differences		4,362	(929)
Interest income		(192)	(140)
Interest expenses	7	227	755
Operating (loss)/profit before working capital changes		(54)	9,839
Decrease/(Increase) in inventories		6,304	(17,060)
Decrease in trade and other receivables		9,199	2,563
(Increase)/Decrease in restricted cash		(54)	598
(Decrease)/Increase in trade and other payables		(28,171)	13,204
Increase in contract liabilities		802	—
Decrease in amount due to a related company		—	(16)
Increase/(Decrease) in amount due to the then immediate holding company		2	(12)
Cash (used in)/generated from operations		(11,972)	9,116
Interest paid	7	(227)	(755)
Income taxes paid		(4,592)	(2,080)
Net cash (used in)/generated from operating activities		(16,791)	6,281
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,665)	(903)
Purchases of intangible assets		(796)	(505)
Addition of available-for-sale financial asset		—	(72)
Interest received		192	140
Net cash used in investing activities		(2,269)	(1,340)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		48,052	—
Payment for share issuance expenses		(8,565)	—
Proceeds from bank borrowings		—	8,576
Repayment of bank borrowings		(21,691)	(14,363)
Net cash generated from/(used in) financing activities		17,796	(5,787)
Net decrease in cash and cash equivalents		(1,264)	(846)
Cash and cash equivalents at the beginning of the year		18,958	20,193
Effect of foreign exchange rate changes		52	(389)
Cash and cash equivalents at the end of the year	20	17,746	18,958

Note: The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 69 to 129 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

Sling Group Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 6 January 2017. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Unit 1, 21st Floor, Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design and sale of women's handbags, small leather goods, luggage and travel goods (the "Operating Business").

The Company's immediate and ultimate holding company is Yen Sheng Investment Limited ("Yen Sheng BVI"), a company incorporated in the British Virgin Islands ("BVI") and controlled by Mr. Yau Tai Leung Sammy ("Mr. Sammy Yau"), Mr. Yau Sonny Tai Nin ("Mr. Sonny Yau"), Mr. Yau Frederick Heng Chung ("Mr. Fred Yau"), Mr. Yau Nicholas Heng Wah ("Mr. Nicholas Yau") and Ms. Hiang Siu Wei Cecilia ("Ms. Cecilia Hiang").

The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 January 2018.

In these consolidated financial statements, certain English name of the companies referred herein represent the management's best effort to translate the Chinese name of the companies as no English name has been registered.

The consolidated financial statements for the year ended 31 December 2018 were approved for issue by the board of directors on 21 March 2019.

1.2 Basis of presentation

Prior to the incorporation of the Company and the completion of a group reorganisation (the "Reorganisation") in connection with the listing of its shares on the Stock Exchange, the Operating Business was carried out by the companies now comprising the Group (collectively referred to as the "Operating Companies"). The Operating Companies were controlled by Yen Sheng BVI, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Ms. Cecilia Hiang, Ms. Li Wing Chi Agnes and Summit Time Resources Limited ("Summit Time") (collectively referred to as the "Controlling Shareholders").

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 4 December 2017. Details of the Reorganisation are set out in the paragraphs headed "Reorganisation" in the section headed "History and Development and Reorganisation" in the Company's prospectus dated 29 December 2017.

The Reorganisation only involved inserting new holding companies, which have not been engaged in any other business, immediate to the top of Sling Incorporated Limited ("Sling Incorp"), the Reorganisation has not resulted in any changes of economic substance. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2017 have been prepared using the merger basis of accounting as if the current group structure has been in existence throughout the year ended 31 December 2017, or since their respective dates of incorporation and/or establishment, whichever was shorter.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

1. GENERAL INFORMATION AND BASIS OF PRESENTATION (Continued)

1.2 Basis of presentation (Continued)

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017 which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared as if the Company had always been the holding company of the Group and the current group structure has been in existence throughout the year ended 31 December 2017, or since their respective dates of incorporation and/or establishment, whichever was shorter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new and amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial asset which is stated at fair value. The measurement bases are fully described in the accounting policies below.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and its major subsidiaries, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in the other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to the profit or loss or transferred directly to retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an interest in an associate or a joint venture.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

In the Company's statement of financial position, subsidiary is carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiary are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.3 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. (i.e. only translated using the exchange rates at the transaction date).

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in translation reserve in equity.

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line basis, at the following rates per annum:

Leasehold improvement	Shorter of useful lives or lease period
Office equipment	20–50%
Computer equipment	20–50%
Motor vehicles	20%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Property, plant and equipment (Continued)

Estimates of residual value and useful life are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

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 costs, such as repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

2.5 Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	1–5 years

Trademark which is classified as intangible asset with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

The trademark has a legal life of 10 years and renewable every 10 years at minimal cost. The directors of the Company (the "Directors") are of the opinion that the Group would renew the trademark continuously and has the ability to do so.

As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.16.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments

Financial assets

Policy applicable from 1 January 2018

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at FVTPL, plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

— amortised cost;

— FVTPL; or

— fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

— the entity's business model for managing the financial asset; and

— the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in the profit or loss are presented within finance costs, finance income or other financial items, except for expected credit losses ("ECL") of trade receivables which is presented within administrative and other operating expenses.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

— they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

— the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other revenue and income in the profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's restricted cash, cash and bank balances, trade and other receivables and amounts due from related parties fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under HKFRS 9 apply.

Policy applicable before 1 January 2018

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Other investments which did not fall into any of the below categories:

— investments in securities held for trading were classified as financial assets measured at FVTPL; and

— dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities

were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in the other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity.

Dividend and interest income from debt securities calculated using the effective interest method were recognised in the profit or loss in accordance with the policies set out in note 2.14. Foreign exchange gains and losses arising from debt securities were also recognised in the profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to the profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments (Continued)

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include bank borrowings, trade and other payables and amount due to related party.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in the profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the profit or loss are included within finance costs or other revenue and income.

Bank borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

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

Trade and other payables and amount due to related party

Trade and other payables and amount due to related party are recognised initially at their fair values and subsequently measured at amortised cost, using the effective interest method.

2.7 Impairment of financial assets and contract assets

Policy applicable from 1 January 2018

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL — the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under HKFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (Continued)

In applying this forward-looking approach, a distinction is made between:

— financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”) and

— financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month ECL” are recognised for the Stage 1 category while “lifetime ECL” are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Other financial assets measured at amortised cost (Continued)

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

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor;

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 31.4.

Policy applicable before 1 January 2018

At each reporting date, financial assets other than at FVTPL are reviewed to determine whether there is any objective evidence of impairment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of financial assets and contract assets (Continued)

Policy applicable before 1 January 2018 (Continued)

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— the disappearance of an active market for that financial asset because of financial difficulties.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

The amount of the impairment 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 (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the profit or loss of the period in which the impairment occurs.

If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the financial asset at the date of impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Available-for-sale financial assets carried at fair value

When a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in the other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.10 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.14) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.7 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.6).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.14). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.6).

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.

2.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made. Contingent rental is charged to the profit or loss in the accounting period in which they are incurred.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Provisions

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

2.13 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.14 Revenue recognition

Revenue mainly arises from the sales of goods as disclosed in note 1.1 to the consolidated financial statements.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Revenue recognition (Continued)

Further details of the Group's revenue and other revenue and income recognition policies are as described below. The Group bases its estimates of return on historical pattern, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Sales of goods — retailers

Revenue is recognised when (or as) the Group transfers control of the assets to the retailers, control transfers at the point in time when the goods are delivered and accepted by the retailers. Acceptance refers to either of the situations that the retailers accepted the goods in accordance with the sales contracts; the acceptance provisions have lapsed; or the Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the retailers' acceptance of the goods.

Retailers are offered with right of return (including exchange) within the limit as agreed in the sales contracts. Revenue is adjusted for expected returns (including exchanges) based on historical pattern.

Sales of goods — retail

The Group sells its goods to the end customers via a chain of self-operated retail points of the Group or over third-party online retail platforms. Revenue is recognised when (or as) the Group transfers control of the assets to the end customers when the Group can reasonably estimate the acceptance by the end customers. For offline retail sales, acceptance by the end customers is estimated based on historical experience on product returns. For online retail sales, acceptance can normally be estimated when online payment transaction is completed through third-party payment platforms. Revenue is adjusted for the value of expected returns.

The Group offers a variety of membership-based customer loyalty programs (the "Programs") to provide incentive to customers to buy their products. Under the Programs, customers who joined the membership are able to accumulate reward points through purchases of goods or promotion activities and could redeem these reward points for free products or vouchers entitling discount immediately or on a subsequent purchase. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received or receivable between the reward points and the other components of the sale such that the reward points are initially recognised as contract liability at their fair values. Revenue from the reward points is recognised when the points are redeemed or expired.

Service income

Service income is recognised when the relevant service is rendered.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in the profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

2.16 Impairment of non-financial assets (other than contract assets)

The Group's property, plant and equipment, intangible assets and the Company's interest in a subsidiary are subject to impairment testing. Intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.17 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee benefits (Continued)

Retirement benefits (Continued)

Contributions are recognised as an expense in the profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.18 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.19 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Accounting for income taxes (Continued)

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker (the "CODM") for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

- (i) the entity and the Group are members of the same group.
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) the entity and the Group are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
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
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of the new and amended HKFRSs are discussed below. Other than as noted below, the adoption of these new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "ECL model" for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed as at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in the retained profits.

The adoption of HKFRS 9 has impacted the following areas of the Group:

— HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

— for "available-for-sale financial asset" under HKAS 39 has been reclassified as "financial asset at FVTPL" under HKFRS 9.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including restricted cash, cash and bank balances, trade and other receivables and amounts due from related parties); and

— contract assets as defined in HKFRS 15.

For contract assets arising from HKFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Upon the adoption of HKFRS 9, the Group recognised additional ECL on the Group's trade receivables and other receivables of RMB1,153,000 and RMB265,000 respectively, which resulted in a decrease in the retained profits, net of tax, of RMB1,063,000 as at 1 January 2018.

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position as at the date of initial application (1 January 2018) are summarised as follows:

	Measurement category					
	Original HKAS 39 category	New HKFRS 9 category	As at 31 December 2017 (HKAS 39)	Adoption of HKFRS 9		As at 1 January 2018 (HKFRS 9)
				Reclassification	Remeasurement	
			RMB'000	RMB'000	RMB'000	RMB'000
Non-current financial assets						
Investment in a life insurance policy	Available- for-sale	FVTPL	199	–	–	**199**
Current financial assets						
Trade and other receivables	Amortised cost	Amortised cost	35,746	–	(1,418)	**34,328**
Amounts due from Controlling Shareholders	Amortised cost	Amortised cost	9	–	–	**9**
Restricted cash	Amortised cost	Amortised cost	188	–	–	**188**
Cash and bank balances	Amortised cost	Amortised cost	18,958	–	–	**18,958**
			54,901	–	(1,418)	**53,483**
Total financial asset balances			55,100	–	(1,418)	**53,682**

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

The total impact on the Group's retained profits, net of tax, as at 1 January 2018 is as follows:

	RMB'000
Retained profits as at 31 December 2017	19,879
Recognition of ECL under HKFRS 9, net of tax	(1,063)
Retained profits as at 1 January 2018	**18,816**

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out in note 3.1.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 9 "Financial Instruments" (Continued)

ECL

For further details on the Group's accounting policy for accounting for ECL, see note 2.7.

The following table reconciles the provision of impairment determined in accordance with HKAS 39 as at 31 December 2017 with the opening ECL determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Provision of impairment as at 31 December 2017 under HKAS 39	120
Additional ECL recognised as at 1 January 2018 on:	
— Trade receivables	1,153
— Other receivables	265
ECL as at 1 January 2018 under HKFRS 9	**1,538**

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replace HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising 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:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service 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 when the Group recognises revenue from sales of goods.

(ii) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

The adoption of HKFRS 15 does not have a significant impact on adjusting the transaction price containing significant financing component on the consolidated financial statements as at date of initial application.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

(iii) Presentation of contract assets and liabilities

Previously, contract balances relating to receipts in advance from customers were presented in the consolidated statement of financial position under "trade and other payables".

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2.14) 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.

As at the date of initial application of HKFRS 15, receipts in advance from customers of RMB1,674,000 in respect of the contracts with retailers previously included in "trade and other payables" were reclassified to "contract liabilities".

(iv) Presentation of assets and liabilities in relation to sale with a right of return

Right to recover returned products and refund liability for the products expected to be returned are required to be presented separately as "right to recover returned products" included in "inventories" and "refund liabilities" included in "trade and other payables" respectively in the consolidated statement of financial position upon adoption of HKFRS 15.

The adoption of HKFRS 15 does not have a significant impact on the consolidated financial statements as at date of initial application as the financial effect is immaterial after quantification.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

No significant impact of transition to HKFRS 15 on the retained profits and the related tax impact as at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts under HKASs 11 and 18 as at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under HKFRS 15 as at 1 January 2018 RMB'000
Current liabilities				
Trade and other payables	45,219	(1,674)	—	**43,545**
Contract liabilities	—	1,674	—	**1,674**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKASs 18 and 11 (B) RMB'000	Difference: estimated impact of adoption of HKFRS 15 on 2018 (A)—(B) RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Trade and other payables	17,463	18,265	(802)
Contract liabilities	802	—	802
Line items in the consolidated statement of cash flows for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Decrease in trade and other payables	(28,171)	(27,369)	(802)
Increase in contract liabilities	802	—	802

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.2 Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective date not yet determined

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations.

As disclosed in note 2.11, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.2 Issued but not yet effective HKFRSs (Continued)

HKFRS 16 "Leases" (Continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As disclosed in note 28, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB6,963,000 for premises, which is payable between 1 to 5 years after the reporting date.

Upon the initial application of HKFRS 16, the Group plans to measure the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate as at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB4,147,000 and RMB4,094,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Net realisable value of inventories

Net realisable value of inventories (note 17) is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period.

Estimation of impairment of trade and other receivables and other financial assets within the scope of ECL upon application of HKFRS 9

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables and other financial assets) 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 as set out in note 2.7. As at 31 December 2018, the aggregate carrying amounts of trade and other receivables and other financial assets amounted to RMB18,462,000 (net of ECL allowance of RMB1,621,000) and RMB18,317,000 (net of ECL allowance of RMBNil) respectively.

Before the adoption of HKFRS 9, the Group determines impairment of trade and other receivables and other financial assets on a regular basis. This estimate is based on the credit history of its customers/debtors and current market conditions. The Group reassesses the impairment of trade and other receivables and other financial assets at the end of each reporting period. As at 31 December 2017, the aggregate carrying amounts of trade and other receivables and other financial assets amounted to RMB24,376,000 (net of loss allowance of RMB120,000) and RMB19,354,000 (net of loss allowance of RMBNil) respectively.

When the actual future cash flows are different from expected, such difference will impact the carrying amounts of trade and other receivables and other financial assets within the scope of ECL upon the application of HKFRS 9.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Estimation uncertainty (Continued)

Impairment of property, plant and equipment and intangible assets

If circumstances indicate that the net book value of property, plant and equipment (note 13) and intangible assets (note 15) may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of property, plant and equipment and intangible assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant estimation relating to the level of sales volume, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs.

Depreciation and amortisation

Property, plant and equipment (note 13) and intangible assets (note 15) with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

4.2 Critical accounting judgements

Income taxes

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

5. REVENUE AND SEGMENT REPORTING

5.1 Revenue

The Group's principal activities are disclosed in note 1.1 to the consolidated financial statements. Revenue represents the fair value of consideration received and receivable from the sale of women's handbags, small leather goods, luggage and travel goods by the Group to external customers.

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time through different channels were analysed as follows:

	2018 RMB'000	2017 RMB'000
Online retail sales	88,846	141,913
Offline retail sales	5,388	14,421
Wholesale to offline retailers	22,454	33,145
Wholesale to online retailers	24,393	19,504
	141,081	208,983

5.2 Segment information

The Group's operating activities are attributable to a single reportable and operating segment focusing primarily on the wholesale and retail of women's handbags, small leather goods, luggage and travel goods. This operating segment has been identified on the basis of internal management reports reviewed by the CODM, being the executive directors of the Company. The CODM mainly reviews revenue derived from the wholesale and retail of women's handbags, small leather goods, luggage and travel goods. The CODM reviews the overall results of the Group as a whole to make decisions about resources allocation. Accordingly, other than the entity-wide disclosure, no segment analysis is presented.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

5. REVENUE AND SEGMENT REPORTING (Continued)

5.2 Segment information (Continued)

Geographical information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, and the location of the operations to which they are allocated, in the case of intangible assets.

	2018 RMB'000	2017 RMB'000
Revenue from external customers		
The PRC (excluding Hong Kong)	141,080	208,975
Hong Kong	1	8
	141,081	208,983
Specified non-current assets		
The PRC (excluding Hong Kong)	5,271	3,879
Hong Kong	287	327
	5,558	4,206

Information about major customers

During the year ended 31 December 2018, none of the Group's customers contributed more than 10% of the Group's revenue (2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

6. OTHER REVENUE AND INCOME

	2018 RMB'000	2017 RMB'000
Other revenue		
Service income	5,943	1,599
Bank interest income	188	138
Dividend and interest income from financial asset at FVTPL	4	—
Dividend and interest income from available-for-sale financial asset	—	2
	6,135	1,739
Other income		
Reversal of write-down of inventories to net realisable value	169	—
Fair value gains on financial asset at FVTPL	102	—
Exchange gain, net	—	1,103
Sundry income	201	46
	472	1,149
	6,607	2,888

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest charges on:		
— Bank borrowings	227	755

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000
Auditor's remuneration	647	593
Cost of inventories recognised as an expense	63,561	88,983
Write-down of inventories to net realisable value	—	706
Reversal of write-down of inventories to net realisable value	(169)	—
Fair value gains on financial asset at FVTPL	(102)	—
Credit losses of financial assets at amortised cost, net	203	—
Amortisation of intangible assets	197	88
Depreciation of property, plant and equipment	895	711
Losses on written-off of property, plant and equipment	31	11
Staff costs (including directors' emoluments)		
— Salaries, allowances and other benefits	14,742	14,658
— Contributions to retirement benefit schemes	2,897	3,150
Operating lease charges on premises		
— Minimum lease payments	4,285	5,208
— Contingent lease payments (note)	236	1,619
Exchange losses/(gain), net	1,550	(1,103)

Note: The contingent lease payments refer to the operating lease rentals based on pre-determined percentages to realised sales less the basic rentals of the respective leases.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

9. INCOME TAX (CREDIT)/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.

PRC Enterprise Income Tax (the "PRC EIT") in respect of the Group's operations in the PRC has been calculated at the rate of 25% (2017: 25%) on the estimated assessable profit for the year arising from the PRC.

	2018 RMB'000	2017 RMB'000
Current tax		
Hong Kong Profits Tax		
— Current year	—	573
— Over-provision in respect of prior years	(43)	(235)
The PRC EIT		
— Current year	1,384	3,698
— Under-provision in respect of prior years	340	124
	1,681	4,160
Deferred tax		
— (Credited)/Charged to the profit or loss (note 24)	(1,926)	638
Income tax (credit)/expense	(245)	4,798

Reconciliation between income tax (credit)/expense and accounting (loss)/profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
(Loss)/Profit before income tax	(5,506)	8,637
Tax on (loss)/profit before income tax, calculated at the rates applicable to (losses)/profits in the tax jurisdiction concerned	(883)	2,867
Tax effect on:		
— Non-deductible expenses	415	2,122
— Non-taxable income	(90)	(90)
— Tax losses not recognised	8	—
— Recognition of deductible temporary differences previously not recognised	8	10
— Under/(Over) provision in respect of prior years	297	(111)
Income tax (credit)/expense	(245)	4,798

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

10.1 Directors' emoluments

Directors' emoluments, disclosed pursuant to the GEM Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Year ended 31 December 2018					
Executive directors					
Mr. Fred Yau (note a)	—	328	—	15	343
Mr. Lee Tat Fai Brian ("Mr. Brian Lee") (note a)	—	1,164	—	15	1,179
Mr. Yip Chun Wai (note b)	—	439	84	15	538
Non-executive directors					
Mr. Sammy Yau (note a)	101	—	—	—	101
Mr. Sonny Yau (note c)	101	—	—	—	101
Independent non-executive directors					
Mr. Tong Raymond Kwok Kong (note d and e)	169	—	—	—	169
Mr. Won Chik Kee (note d)	169	—	—	—	169
Mr. Feng Dai (note d)	160	—	—	—	160
Ms. Sit Ting Fong (note f)	—	—	—	—	—
	700	1,931	84	45	2,760
Year ended 31 December 2017					
Executive directors					
Mr. Fred Yau (note a)	—	260	22	13	295
Mr. Brian Lee (note a)	—	1,341	87	16	1,444
Mr. Yip Chun Wai (note b)	—	333	35	16	384
Non-executive directors					
Mr. Sammy Yau (note a)	—	5	—	—	5
Mr. Sonny Yau (note c)	—	5	—	—	5
Independent non-executive directors					
Mr. Tong Raymond Kwok Kong (note d and e)	—	8	—	—	8
Mr. Won Chik Kee (note d)	—	8	—	—	8
Mr. Feng Dai (note d)	—	8	—	—	8
	—	1,968	144	45	2,157

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

10.1 Directors' emoluments (Continued)

Note:

(a) Appointed on 22 June 2017.

(b) Appointed on 20 October 2017.

(c) Appointed on 6 January 2017.

(d) Appointed on 15 December 2017.

(e) Resigned on 31 January 2019.

(f) Appointed on 31 January 2019.

10.2 Five highest paid individuals

The five highest paid individuals of the Group during the year include two (2017: two) Directors whose emoluments are disclosed above. Details of the emoluments in respect of the remaining three (2017: three) highest paid individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	1,424	1,288
Discretionary bonuses	128	109
Contributions to retirement benefit schemes	46	47
	1,598	1,444

The above individuals' emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$Nil to HK$1,000,000	3	3

During the year ended 31 December 2018, no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil). No Directors or five highest paid individuals have waived or agreed to waive any emoluments during the year ended 31 December 2018 (2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

11. DIVIDENDS

No dividend was declared or paid by the Group during the year ended 31 December 2018 to its equity holders (2017: Nil).

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share attributable to equity holders of the Company is based on the following:

	2018 RMB'000	2017 RMB'000
(Loss)/Earnings		
(Loss)/Profit for the year attributable to equity holders of the Company	(5,261)	3,839
Number of shares		
Weighted average number of ordinary shares (in thousands)	554,630	420,000

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 December 2018 includes (i) 1,000,000 ordinary shares in issue throughout the year; (ii) the 419,000,000 new ordinary shares issued pursuant to the Capitalisation Issue (note 25d), as if all these shares had been in issue throughout the year ended 31 December 2018; and (iii) 134,630,000 shares, representing the weighted average of 140,000,000 new ordinary shares issued pursuant to the Share Offer (note 25c).

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 representing the number of ordinary shares of the Company immediately after the Capitalisation Issue (note 25d), as if all these shares had been in issue throughout the year ended 31 December 2017.

There were no dilutive potential ordinary shares during both years and therefore, diluted (loss)/earnings per share equals to basic (loss)/earnings per share.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Office equipment RMB'000	Computer equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2017					
Cost	5,044	868	149	288	6,349
Accumulated depreciation	(3,733)	(652)	(144)	(178)	(4,707)
Net book amount	1,311	216	5	110	1,642
Year ended 31 December 2017					
Opening net book amount	1,311	216	5	110	1,642
Additions	321	581	1	—	903
Written-off	—	(11)	—	—	(11)
Transfers	(313)	—	—	—	(313)
Depreciation	(486)	(170)	(5)	(50)	(711)
Exchange differences	(27)	—	—	—	(27)
Closing net book amount	806	616	1	60	1,483
As at 31 December 2017 and 1 January 2018					
Cost	2,605	1,196	64	288	4,153
Accumulated depreciation	(1,799)	(580)	(63)	(228)	(2,670)
Net book amount	806	616	1	60	1,483
Year ended 31 December 2018					
Opening net book amount	806	616	1	60	1,483
Additions	1,185	462	18	—	1,665
Written-off	—	(31)	—	—	(31)
Depreciation	(525)	(323)	(6)	(41)	(895)
Exchange differences	14	—	—	—	14
Closing net book amount	1,480	724	13	19	2,236
As at 31 December 2018					
Cost	2,674	1,147	86	288	4,195
Accumulated depreciation	(1,194)	(423)	(73)	(269)	(1,959)
Net book amount	1,480	724	13	19	2,236

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

14. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of company	Place/Country of incorporation and operation	Type of legal entity	Particulars of registered/issued and paid up capital	Equity interest held by the Company		Principal activity
				2018	2017	
Sling Investment Limited ("Sling BVI")	BVI	Limited liability company	HK$10,000 divided into 1,000,000 shares of HK$0.01 each	100%#	100%#	Investment holding
Sling Incorp	Hong Kong	Limited liability company	7,937,431 ordinary shares	100%	100%	Design, marketing, sourcing and procurement of women's handbags, small leather goods and travel goods
Elite Grand Limited	Hong Kong	Limited liability company	10,000 ordinary shares	100%	100%	Dormant
Senhao Shangmao (Shanghai) Company Limited 森浩商貿 (上海) 有限公司	The PRC	Limited liability company	USD2,000,000	100%	100%	Wholesale and retail of handbags, wallets and luggage
Senxuan Shangmao (Shanghai) Company Limited 森渲商貿 (上海) 有限公司	The PRC	Limited liability company	USD100,000	100%	100%	Retail and export of handbags, wallets and luggage
Shenzhen Yaying Design Company Limited 深圳雅盈設計有限公司	The PRC	Limited liability company	RMB50,000	100%	100%	Inactive
Zhejiang Zimaoqu Senying Shangmao Company Limited 浙江自貿區森盈商貿有限公司 ("Senying Shangmao")	The PRC	Limited liability company	RMB1,000,000	100%*	N/A	Wholesale and retail of handbags, clothes and accessories

The issued capital of Sling BVI was held by the Company directly.

* Senying Shangmao was incorporated on 29 May 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

15. INTANGIBLE ASSETS

	Trademark RMB'000	Computer software RMB'000	Total RMB'000
As at 1 January 2017			
Cost	2,250	334	2,584
Accumulated amortisation	—	(278)	(278)
Net book amount	2,250	56	2,306
Year ended 31 December 2017			
Opening net book amount	2,250	56	2,306
Additions	—	505	505
Amortisation	—	(88)	(88)
Closing net book amount	2,250	473	2,723
As at 31 December 2017 and 1 January 2018			
Cost	2,250	839	3,089
Accumulated amortisation	—	(366)	(366)
Net book amount	2,250	473	2,723
Year ended 31 December 2018			
Opening net book amount	**2,250**	**473**	**2,723**
Additions	**—**	**796**	**796**
Amortisation	**—**	**(197)**	**(197)**
Closing net book amount	**2,250**	**1,072**	**3,322**
As at 31 December 2018			
Cost	**2,250**	**1,635**	**3,885**
Accumulated amortisation	**—**	**(563)**	**(563)**
Net book amount	**2,250**	**1,072**	**3,322**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

16. FINANCIAL ASSET AT FVTPL

The Group entered into a life insurance policy (the "Policy") with an insurance company to insure a director of the Company. The Group is the policy holder and the beneficiary of the Policy. The Group is eligible for surrender the Policy at any time for cash equivalent to the net cash value.

The financial asset at FVTPL represents the carrying amount of the net cash value of the Policy as at 31 December 2018 which comprised of guaranteed cash value of RMB309,000 (2017: RMB192,000) together with accumulated annual dividends and its accrued interests of RMB11,000 (2017: RMB7,000).

The financial asset at FVTPL is denominated in Hong Kong dollars ("HK$") and the fair value is determined by reference to the net cash value as provided by the insurance company (note 31.6).

"Available-for-sale financial asset" was reclassified to "financial asset at FVTPL" upon the initial application of HKFRS 9 as at 1 January 2018, see note 3 in details.

17. INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	38,888	45,023

As at 31 December 2018, the inventories with carrying amounts of RMB641,000 (2017: RMB804,000) were carried at net realisable values.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

18. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	17,009	20,676
Less: ECL/Loss allowance	(1,384)	—
	15,625	20,676
Prepayments and other receivables		
Prepaid expenses		
— to a related company controlled by three of the Controlling Shareholders	—	562
— to third parties	6,720	5,929
	6,720	6,491
Prepaid listing expenses	—	4,879
Rental and other deposits	2,235	2,006
Other receivables	839	1,814
Less: ECL/Loss allowance	(237)	(120)
	9,557	15,070
	25,182	35,746

The ageing analysis of trade receivables at the end of the reporting date, based on the revenue recognition dates and net of ECL allowance (2017: net of loss allowance), is as follows:

	2018 RMB'000	2017 RMB'000
0–90 days	8,447	13,321
91–180 days	4,166	5,820
181–365 days	2,061	966
Over 365 days	951	569
	15,625	20,676

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

18. TRADE AND OTHER RECEIVABLES (Continued)

The movement in the ECL allowance (2017: loss allowance) of trade receivables is as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January calculated under HKAS 39	—	1,030
Amounts restated through opening retained profits	1,153	—
Adjusted as at 1 January calculated under HKFRS 9	1,153	1,030
Amount written-off during the year	—	(1,030)
ECL/Loss allowance recognised during the year	305	—
ECL/Loss allowance reversed during the year	(74)	—
As at 31 December	1,384	—

The movement in the ECL allowance (2017: loss allowance) of other receivables is as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January calculated under HKAS 39	120	120
Amounts restated through opening retained profits	265	—
Adjusted as at 1 January calculated under HKFRS 9	385	120
Amount written-off during the year	(120)	—
ECL/Loss allowance recognised during the year	227	—
ECL/Loss allowance reversed during the year	(255)	—
As at 31 December	237	120

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

19. AMOUNTS DUE FROM/TO CONTROLLING SHAREHOLDERS/THE THEN IMMEDIATE HOLDING COMPANY

Amounts due are non-trade in nature, unsecured, interest-free and repayable on demand.

(a) Amounts due from Controlling Shareholders

	2018 RMB'000	2017 RMB'000
Yen Sheng BVI	6	6
Summit Time	3	3
	9	9

(b) Amount due to the then immediate holding company

	2018 RMB'000	2017 RMB'000
Yen Sheng Factory Limited	10	8

20. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	11,468	18,958
Short-term bank deposits	6,278	—
	17,746	18,958
Restricted cash	242	188
Cash and cash equivalents presented in the consolidated statement of financial position	17,988	19,146
Less: restricted cash	(242)	(188)
Cash and cash equivalents presented in the consolidated statement of cash flows	17,746	18,958

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

20. CASH AND CASH EQUIVALENTS (Continued)

The short-term bank deposits earn 1.8% to 2.5% (2017: Nil) interest per annum. They have a maturity of 15 to 31 days (2017: Nil) and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in restricted cash and cash and bank balances of the Group of approximately RMB10,301,000 (2017: RMB17,963,000) as at 31 December 2018 are the balances denominated in RMB placed with banks and financial institutions in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

21. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables		
— to a related company controlled by three of the Controlling Shareholders	43	—
— to third parties	7,312	22,680
	7,355	22,680
Accrued charges and other payables		
Accrued expenses		
— to a related company significantly influenced by a director	—	420
— to third parties	6,838	14,180
	6,838	14,600
Deposits received	1,754	1,909
Other tax payables	1,429	4,244
Receipts in advance (note)	—	1,674
Other payables	87	112
	10,108	22,539
	17,463	45,219

Note: As a result of the adoption of HKFRS 15, the advances received is included in contract liabilities and disclosed in note 22 (see note 3).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

21. TRADE AND OTHER PAYABLES (Continued)

The Group was granted by its suppliers credit periods ranging from 0 to 90 days (2017: 0 to 90 days). Based on the date of goods received, the ageing analysis of trade payables as at 31 December 2018 is as follows:

	2018 RMB'000	2017 RMB'000
0–90 days	7,053	21,629
91–180 days	146	586
181–365 days	—	—
Over 365 days	156	465
	7,355	22,680

22. CONTRACT LIABILITIES

	2018 RMB'000	2017 RMB'000
Contract liabilities arising from receiving deposits of trading orders	802	—

Note: The Group has initially applied HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, when the Group receives a deposit before the goods are delivered and accepted by the retailers, this will give rise to contract liabilities at the start of a contract until the revenue recognised on the contract exceeds the amount of the deposits. The Group typically receives ranging from 15% to 25% deposit on acceptance of the orders from certain retailers.

Movements in contract liabilities:

	2018 RMB'000
As at 1 January	1,674
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(1,674)
Increase in contract liabilities as a result of receiving deposits of trading orders as at 31 December 2018	802
As at 31 December	802

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

23. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans, wholly repayable within one year or on demand		
— Secured	—	26,395
— Unsecured	6,147	—
	6,147	26,395

Note: As at 31 December 2018, unsecured bank borrowings of RMB6,147,000 (2017: secured bank borrowings of RMB26,395,000) are repayable within one year or on demand. The bank borrowings bear interest rate at 1.75% (2017: 1.75%) per annum over HIBOR.

As at 31 December 2017, the bank borrowings are guaranteed by the personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and secured by the legal charges over certain properties owned by Unigrade International Limited ("Unigrade"), a related company controlled by Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau and Mr. Nicholas Yau. The personal guarantees and legal charges were released and replaced by a corporate guarantee given by the Company upon listing.

As at 31 December 2018, the bank borrowings are guaranteed by a corporate guarantee given by the Company.

24. DEFERRED TAX

The movement in deferred tax assets during the year is as follows:

	Provisions RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	2,036	—	(535)	1,501
Recognised in the profit or loss (note 9)	(1,173)	—	535	(638)
As at 31 December 2017	863	—	—	863
Adjustment from the adoption of HKFRS 9	355	—	—	355
Adjusted as at 1 January 2018	**1,218**	**—**	**—**	**1,218**
Recognised in the profit or loss (note 9)	504	1,422	—	1,926
As at 31 December 2018	**1,722**	**1,422**	**—**	**3,144**

As at 31 December 2018, the aggregate amount of temporary differences associated with the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB30,761,000 (2017: RMB32,989,000). Deferred income tax liabilities have not been recognised amounting to approximately RMB1,538,000 (2017: RMB1,649,000) in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

25. SHARE CAPITAL

	2018 Number of shares	2018 RMB'000	2017 Number of shares	2017 RMB'000
Authorised:				
Ordinary shares of HK$0.01 each upon incorporation (note a)/as at 1 January 2018	**1,110,000,000**	**9,243**	1,000,000	9
Increase in authorised share capital (note b)	**—**	**—**	1,109,000,000	9,234
As at 31 December	**1,110,000,000**	**9,243**	1,110,000,000	9,243
Issued and fully paid:				
Ordinary share of HK$0.01 upon incorporation (note a)/as at 1 January 2018	**1,000,000**	**9**	1	—
Issuance of ordinary shares (note a)	**—**	**—**	999,999	9
Issuance of ordinary shares pursuant to the Share Offer (note c)	**140,000,000**	**1,117**	—	—
Issuance of ordinary shares pursuant to the Capitalisation Issue (note d)	**419,000,000**	**3,344**	—	—
As at 31 December	**560,000,000**	**4,470**	1,000,000	9

Note:

(a) The Company was incorporated on 6 January 2017 with an authorised share capital of HK$10,000 divided into 1,000,000 shares of HK$0.01 each and has not carried on any business since the date of incorporation except for the Reorganisation. On the date of incorporation, one nil-paid share was allotted and issued. On 28 February 2017, 999,999 nil-paid shares were allotted and issued.

(b) Pursuant to the written resolution of the shareholders passed on 15 December 2017, the authorised share capital of the Company was increased from HK$10,000 to HK$11,100,000 by creation of an additional of 1,109,000,000 shares of HK$0.01 each.

(c) On 15 January 2018, 140,000,000 shares of HK$0.01 each of the Company were allotted and issued at a price of HK$0.43 per share by way of public offer and placing (the "Share Offer").

The proceeds of HK$1,400,000 (equivalent to approximately RMB1,117,000) represents the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$58,800,000 (equivalent to approximately RMB46,935,000), before issuing expenses, were credited to the Company's share premium account. The shares allotted and issued rank pari passu in all respects with the existing issued shares.

(d) Pursuant to the written resolutions of the shareholders passed on 15 December 2017, subject to the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to allot and issue a total of 419,000,000 shares credited as fully paid at par to Yen Sheng BVI and Summit Time by way of capitalisation of the sum of HK$4,190,000 (equivalent to approximately RMB3,344,000) standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). The Capitalisation Issue was completed on 16 January 2018. The shares allotted and issued rank pari passu in all respects with the then existing issued shares.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

26. RESERVES

The amounts of the Group's reserves and the movements during the year ended 31 December 2018 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

Capital reserve represents the difference between the nominal values of the share capital of a subsidiary acquired by the Group and the nominal value of the Company's shares issued for the acquisition under the Reorganisation.

Statutory reserve

In accordance with the Company Law of the PRC, each of the subsidiaries of the Company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after income tax (after offsetting any prior years' losses), determined in accordance with relevant accounting principles and financial regulations applicable to the enterprises established in the PRC (the "PRC GAAP"), to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in a subsidiary	14	9	9
Current assets			
Prepayments		210	—
Amount due from subsidiary		34,833	—
Amounts due from Controlling Shareholders	19a	9	9
Bank balances		6,492	—
		41,544	9
Current liabilities			
Accrual and other payables		7	9
Amounts due to subsidiaries		309	—
		316	9
Net current assets		41,228	—
Net assets		41,237	9
EQUITY			
Share capital	25	4,470	9
Reserves (note)		36,767	—
Total equity		41,237	9

Approved and authorised for issue by the board of directors on 21 March 2019.

Yau Frederick Heng Chung
Director

Lee Tat Fai Brian
Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

The movements of the Company's reserves are as follows:

	Share capital RMB'000 (note 25)	Share premium RMB'000 (note 26)	Translation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Issuance of share capital upon incorporation	—	—	—	—	—
Increase in issuance of ordinary shares	9	—	—	—	9
As at 31 December 2017 and 1 January 2018	9	—	—	—	9
Loss for the year	—	—	—	(2,127)	(2,127)
Other comprehensive income:					
Exchange differences on translation of financial statements	—	—	3,868	—	3,868
Total comprehensive income for the year	—	—	3,868	(2,127)	1,741
Issuance of ordinary shares pursuant to the Share Offer	1,117	46,935	—	—	48,052
Issuance of ordinary shares pursuant to the Capitalisation Issue	3,344	(3,344)	—	—	—
Expenses incurred in connection with the issuance of ordinary shares	—	(8,565)	—	—	(8,565)
Transactions with equity holders	4,461	35,026	—	—	39,487
As at 31 December 2018	4,470	35,026	3,868	(2,127)	41,237

28. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2018 RMB'000	2017 RMB'000
Within one year	3,813	4,734
In the second to fifth years	3,150	1,215
	6,963	5,949

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

28. OPERATING LEASE COMMITMENTS (Continued)

The Group leases a number of premises which comprises offices, warehouses, retail shops and department store counters under operating leases. The leases run for an initial period of one to three years (2017: one to three years), with an option to renew and renegotiate the lease terms at the expiry dates or at dates as mutually agreed between the Group and respective landlords.

Certain retail shops and department store counters include payment obligations with rental varied with gross revenue. The contingent lease payments are determined generally by applying pre-determined percentages to realised sales less the basic rentals of the respective leases.

29. RELATED PARTY TRANSACTIONS

Other than as disclosed in these consolidated financial statements, the Group entered into the following material related party transactions during the year.

(a) Transactions with related parties

	2018 RMB'000	2017 RMB'000
Sales of goods to a related company		
— Shanghai Xuandi Trading Company Limited 上海軒帝貿易有限公司 ("Shanghai Xuandi") (note a)	975	599
Purchases of goods from a related company		
— Dongguan Taiheng Handbags Company Limited 東莞泰亨手袋有限公司 ("Dongguan Taiheng") (note b)	3,131	10,202
Logistics fees paid to a related company		
— Shanghai Xuandi	57	2,508
Commission paid to a related company		
— Shanghai Xuandi	295	732
Sample costs paid to a related company		
— Macia Company Limited (note b)	–	21
Operating leases charges paid to related companies		
— Unigrade	243	250
— Shanghai Xuandi	812	1,404

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

29. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Note:

(a) Shanghai Xuandi is a related company significantly influenced by Mr. Brian Lee. On 31 March 2018, Mr. Brian Lee disposed of his entire equity interests in Shanghai Xuandi.

(b) Dongguan Taiheng and Macia Company Limited are related companies controlled by Mr. Sammy Yau, Mr. Sonny Yau and Ms. Cecilia Hiang.

The above transactions with related parties were conducted in the Group's normal course of business and at prices and terms no less than those charged to and contracted with other third party suppliers of the Group.

(b) Key management personnel remuneration

	2018 RMB'000	2017 RMB'000
Salaries, allowances and other benefits	3,335	3,212
Contributions to retirement benefit schemes	263	313
	3,598	3,525

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Bank borrowings RMB'000
As at 1 January 2017	34,612
Cash flows:	
— Repayment	(14,363)
— Proceeds	8,576
Non-cash flows:	
— Unrealised exchange differences	(2,430)
As at 31 December 2017 and 1 January 2018	26,395
Cash flows:	
— Repayment	(21,691)
Non-cash flows:	
— Unrealised exchange differences	1,443
As at 31 December 2018	**6,147**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

31.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and liabilities.

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost:		
— Trade and other receivables	18,462	—
— Amounts due from Controlling Shareholders	9	—
— Restricted cash	242	—
— Cash and bank balances	17,746	—
Financial asset at FVTPL:		
— Investment in a life insurance policy	320	—
Available-for-sale financial asset:		
— Investment in a life insurance policy	—	199
Loans and receivables:		
— Trade and other receivables	—	24,376
— Amounts due from Controlling Shareholders	—	9
— Restricted cash	—	188
— Cash and bank balances	—	18,958
	36,779	43,730
Financial liabilities		
Measured at amortised cost:		
— Trade and other payables	15,947	39,189
— Bank borrowings	6,147	26,395
— Amount due to the then immediate holding company	10	8
	22,104	65,592

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to foreign currency risk mainly arise from the entities within the Group's cash and cash equivalents which denominated in RMB and United States dollars ("US$"). These are not the functional currencies of the entities within the Group to which these transactions relate.

The financial assets denominated in RMB and US$, translated into RMB at the closing rates, are as follows:

	RMB RMB'000	US$ RMB'000
As at 31 December 2018		
Cash and cash equivalents	6,503	236
As at 31 December 2017		
Cash and cash equivalents	57	226

The following table illustrates the sensitivity of the Group's (loss)profit after income tax for the year and equity as at 31 December 2018 in regards to an appreciation in the entities within the Group's functional currencies against RMB and US$. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rate.

	Sensitivity rate %	Increase in loss/ (Decrease in profit) for the year RMB'000	Decrease in equity RMB'000
Year ended 31 December 2018			
RMB	5%	272	272
US$	5%	9	9
Year ended 31 December 2017			
RMB	5%	(2)	2
US$	5%	(8)	8

The same percentage depreciation in the entities within the Group's functional currencies against the foreign currencies would have the same magnitude on the Group's (loss)/profit after income tax for the year and equity as at 31 December 2018 but of opposite effect.

The Group does not hedge its foreign currency risk with RMB and US$. However, management monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings which bearing variable rates expose the Group to cash flow interest rate risk.

The following table illustrates the sensitivity of the Group's (loss)/profit after income tax for the year and equity as at 31 December 2018 to a decrease of 50 basis points in the interest rate, assuming the interest-bearing borrowings outstanding at the reporting year were outstanding for the whole year and all the variables were held constant.

	(Decrease in loss)/ Increase in profit for the year RMB'000	Increase in equity RMB'000
Year ended 31 December 2018		
Decrease by 50 basis points	(26)	26
Year ended 31 December 2017		
Decrease by 50 basis points	110	110

An increase in 50 basis points in interest rate of the Group's interest-bearing borrowings would have the same magnitude on the Group's (loss)/profit after income tax for the year and equity as at 31 December 2018 but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next 12 month period.

31.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from cash with banks and financial institutions, as well as granting credit to customers in the ordinary course of its operations.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position as at 31 December 2018 and 2017 is the carrying amount as disclosed in note 31.1.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.4 Credit risk (Continued)

Effective on 1 January 2018

(i) Trade receivables

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the credit control department. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

In addition, as set out in note 2.7, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 24 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written-off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 365 days after the credit period from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 54% (2017: 55%) of the total trade receivables was due from the Group's top five individual customers.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.4 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

(i) Trade receivables (Continued)

On the above basis, the ECL for trade receivables as at 31 December 2018 and 1 January 2018 was determined as follows:

	Current RMB'000	1–365 days past due RMB'000	More than 365 days past due RMB'000	Total RMB'000
As at 31 December 2018				
ECL rate	4.0%	5.0%	100.0%	
Gross carrying amount				
— trade receivables	4,623	11,771	615	17,009
Lifetime ECL	184	585	615	1,384
As at 1 January 2018				
ECL rate	4.6%	5.6%	100.0%	
Gross carrying amount				
— trade receivables	8,192	12,402	82	20,676
Lifetime ECL	377	694	82	1,153

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, amounts due form related parties, restricted cash, and cash and bank balances. In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables is considered to be low.

Besides, the management is of the opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 2.7 and, thus, ECL recognised is based on 12-month ECL. The ECL rate applied for other receivables ranging from 5.0% to 100.0%.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.4 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

(ii) Other financial assets at amortised cost (Continued)

The credit risks on restricted cash and cash and bank balances are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

The Group's amounts due from related parties are considered to have low credit risk as they have a low risk of default and the counterparties have strong capacity to meet their contractual cash flow obligation in the near term.

31.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of its financing obligations and its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity as at 31 December 2018. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Within one year or on demand RMB'000	Total undiscounted amount RMB'000	Carrying amount RMB'000
As at 31 December 2018			
Trade and other payables	**15,947**	**15,947**	**15,947**
Bank borrowings	**6,147**	**6,147**	**6,147**
Amount due to the then immediate holding company	**10**	**10**	**10**
	22,104	**22,104**	**22,104**
As at 31 December 2017			
Trade and other payables	39,189	39,189	39,189
Bank borrowings	26,395	26,395	26,395
Amount due to the then immediate holding company	8	8	8
	65,592	65,592	65,592

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.5 Liquidity risk (Continued)

Bank borrowings with a repayment on demand clause are included in the "One year or on demand" time band in the above maturity analysis.

As at 31 December 2018, the aggregate undiscounted principal and interest of these bank borrowings payable within one year in accordance with the scheduled payment terms were RMB6,169,000 (2017: RMB26,436,000).

As at 31 December 2018 and 2017, taking into account of the Group's financial position, the Directors do not believe that it is probable that the bank will exercise its discretionary right to demand immediate repayment. Included in the above balances, the Directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements.

31.6 Fair value measurements of financial instruments

Financial assets measured at fair values in the consolidated statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurements, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

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

Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The fair value measurement hierarchy of the Group's financial asset at FVTPL is as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2018				
Financial asset:				
Financial asset at FVTPL				
— Investment in a life insurance policy	—	320	—	320
As at 31 December 2017				
Financial asset:				
Available-for-sale financial asset				
— Investment in a life insurance policy	—	199	—	199

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

31.6 Fair value measurements of financial instruments (Continued)

During the year ended 31 December 2018, there were no transfers between Level 1, Level 2 and Level 3 (2017: Nil).

The fair value of financial asset at FVTPL (2017: available-for-sale financial asset) is determined by reference to the net cash value as provided by the insurance company.

The management considered the carrying amounts of other financial assets and liabilities of the Group are not materially different from their fair values as at 31 December 2018 and 2017 due to immediate or short term of maturity.

32. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders. The Group manages capital by regularly monitoring its current and expected liquidity requirements.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, debt is defined as bank borrowings net of cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing.

The net debt to equity ratio at each reporting date was:

	2018 RMB'000	2017 RMB'000
Bank borrowings	6,147	26,395
Less: restricted cash	(242)	(188)
cash and bank balances	(17,746)	(18,958)
Net debts	(11,841)	7,249
Total equity	65,985	29,972
Net debt to equity ratio	N/A	24%

Financial Summary

For the year ended 31 December 2018

The consolidated statements of profit or loss and other comprehensive income of the Group for the years ended 2015, 2016, 2017 and 2018, and the consolidated statements of financial position of the Group as at 31 December 2015, 2016, 2017 and 2018 are as follows:

Consolidated results	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	192,448	210,481	208,983	**141,081**
Listing expenses	—	(1,990)	(13,169)	**(106)**
Profit/(Loss) before income tax	13,649	9,631	8,637	**(5,506)**
Income tax (expense)/credit	(3,547)	(3,374)	(4,798)	**245**
Profit/(Loss) for the year	10,102	6,257	3,839	**(5,261)**
Total comprehensive income/(expense) for the year attributable to equity holders of the Company	9,886	5,729	4,901	**(2,411)**

Consolidated assets and liabilities	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Total assets	80,602	94,634	105,410	**91,140**
Total liabilities	(61,269)	(69,572)	(75,438)	**(25,155)**
Total equity	19,333	25,062	29,972	**65,985**