# Takbo Group Holdings Limited
# 德寶集團控股有限公司

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

# Annual Report 2019

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*This report, for which the directors (the "Directors") of Takbo 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 (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together, the "Group"). 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

## Executive Directors

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

## Independent Non-executive Directors

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

## Audit Committee

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

## Remuneration Committee

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

## Nomination Committee

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

## Company Secretary

Mr. Ng Chit Sing

## Authorized Representatives

Mr. Or Naam
Ms. Chan Hoi Yan Polly

## Compliance Officer

Ms. Chan Hoi Yan Polly

## Registered Office

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

## Principal Place of Business in Hong Kong

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

## Independent Auditors

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

## Compliance Adviser

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

## Principal Bankers

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

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

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

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

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
*(Change of address with effect from 11 July 2019)*

## Stock Code

8436

## Company Website

www.takbogroup.com

# CEO's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Takbo Group Holdings Limited (the "Company"), I am pleased to present our audited consolidated financial results of the Company and its subsidiaries (collectively, referred to as the "Group") for the year ended 31 December 2019.

2019 is a challenging year. The implementation of additional duty arising from the trade war between the United States of America (the "US") and the PRC as well as the social rally in Hong Kong contributed to the adverse effect on the international trade and the domestic consumption as a whole.

During the latest financial year, through strengthening business relationship with existing customers, participating in both local and global beauty exhibitions to expand our customer base, we have recorded a steady growth in our business performance with increment in our revenue, overall profit as well as returns to the shareholders of the Company despite the fact of the above uncertainties of the global market economies and social rally in Hong Kong.

In May 2019, the Company has submitted a formal application to the Stock Exchange for the proposed transfer of listing from GEM to the Main Board (the "Proposed Transfer of Listing") of the Stock Exchange for the purpose of further improvement on the profile, brand and product awareness of the Group, which in turn will facilitate the Group to reach out to more potential customers and suppliers and hence beneficial to the long-term growth of the Group. The application for Proposed Transfer of Listing was lapsed in November 2019. The Company will keep a close watch on the capital market in Hong Kong and publish announcement in compliance with the GEM Listing Rules should there be any information in connection with the material development of the Company and re-submission of the application for the Proposed Transfer of Listing.

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

**Or Naam**
*Chief Executive Officer and Executive Director*

Hong Kong, 16 March 2020

# Management Discussion and Analysis

## Market Overview

With the uncertainties throughout the global economy and the trade war between the US and the PRC in 2019, the market generally became more challenging. Nevertheless, since the beauty products require high quality standard, despite the fact of paying extra tariff for products from the PRC, most of the US customers remain a preference of sourcing from the PRC which have higher standard factories for mass production as compared to other developing countries. Our growing business for the year was due to the stable and even improving economy of the US, supporting solid and high customer spending in the US.

## Business Overview

The Group is principally engaged in (i) the design, development, manufacture and sale of beauty products; and (ii) the design, development and sale of beauty bags. The core business and revenue structure of the Group has remained unchanged for the year ended 31 December 2019. During the year, the Group has explored various marketing activities and enrolled different types of exhibitions such as China Beauty Expo 2019 in Shanghai with an aim to develop and consolidate relationship with customers to enable the Group to secure more contracts in both local and international markets even in the recent challenging economies. In addition, the Group has kept negotiating with its US customers for sharing of any additional tariff and received favorable responses, leading to a stable business performance recorded during the year.

## Financial Highlight

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | **HK$'000** | HK$'000 | % |
| Revenue | **266,415** | 258,782 | 2.9 |
| Gross profit | **98,850** | 87,521 | 12.9 |
| Gross profit margin | **37.1%** | 33.8% | 3.3 |
| Net profit | **33,053** | 32,249 | 2.5 |
| Earnings per share (in HK cents) | **8.3** | 8.1 | 2.5 |

## Prospect

Looking forward, the Directors considers the global business environment will become more challenging. The economic atmosphere and confidence could definitely be adversely affected by the continuous trade war between the US and the PRC, and the coronavirus COVID-19 outbreak around the world. The Group will stay alert of the trade war and any changing business environment that may impact its operations and its profitability. At the same time, the Group will evaluate and determine if any business strategy can be adopted to promote sales and reduce costs on its products exported to the US. The goal of the Group is very clear, that is to strengthen its position as a beauty products manufacturer and solutions provider of beauty bags, and leverage on its competitive advantages to maintain its overall profit and shareholders value.

## Financial Review

The following table sets out a breakdown of revenue of the Group and the percentage contribution to total revenue by product category for the years ended 31 December 2019 and 2018:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **HK$'000** | **%** | HK$'000 | % |
| Beauty products | **209,750** | **78.7** | 193,375 | 74.7 |
| Beauty bags | **56,665** | **21.3** | 65,407 | 25.3 |
| Total | **266,415** | **100.0** | 258,782 | 100.0 |

Revenue of the Group for the year ended 31 December 2019 amounted to approximately HK$266.4 million, representing an increase of approximately 2.9% over the previous year. The increase was mainly attributable to more sales order received during the year ended 31 December 2019, which in turn was due to the increasing recognition of our high quality as well as variety of overall products from our existing customers, together with the management's ongoing successful marketing strategy in soliciting new customers in different markets.

The gross profit of the Group for the year ended 31 December 2019 amounted to approximately HK$98.9 million, representing an increase of approximately 12.9% over the previous year. The gross profit margin of the Group increased from approximately 33.8% to approximately 37.1% mainly as a result of different product mix and relatively cheaper production cost with depreciation in Chinese Renminbi ("RMB") against HK$ for the year ended 31 December 2019.

Profit attributable to equity holders of the Company for the year ended 31 December 2019 amounted to approximately HK$33.1 million, representing an increase of approximately 2.5% over the previous year. Such change was mainly due to the increased sales from both existing and new customers, improved overall gross profit margin, and foreign exchange gain, which was partially offset by the increased expenses incurred in relation to the Proposed Transfer of Listing.

## Liquidity and Financial Resources

The Group practiced prudent financial management and maintained a healthy financial position during the year ended 31 December 2019. The Group finances its daily operations through a combination of net funds generated and received from operations and net proceeds from the share offer. As of 31 December 2019, the Group had cash and cash equivalents of approximately HK$114.2 million (2018: approximately HK$103.6 million). The increase in cash and cash equivalents was mainly attributable to net cash inflow from operating activities.

The current ratio, calculated as the total current assets divided by total current liabilities, was approximately 4.7 times as at 31 December 2019 (2018: approximately 8.1 times). As at 31 December 2019, the Group did not have any outstanding borrowing and other indebtedness and no gearing ratio is presented.

## Administrative Expenses

The administrative expenses of the Group increased by approximately HK$10.4 million or approximately 34.5% from approximately HK$30.2 million for the year ended 31 December 2018 to approximately HK$40.6 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in staff costs with more headcounts, general salary increment, discretionary performance bonus, as well as the one-off expenses and professional fees incurred in relation to the Proposed Transfer of Listing of approximately HK$3.7 million during the year ended 31 December 2019.

## Selling Expenses

The selling expenses of the Group increased by approximately HK$4.2 million or approximately 16.6% from approximately HK$25.4 million for the year ended 31 December 2018 to approximately HK$29.6 million for the year ended 31 December 2019. The increase was mainly due to the increase of tariff disbursement expenses for the products shipped to the US.

## Foreign Exchange Exposure

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk, primarily with respect to US$ and RMB denominated transactions arising from the sales of beauty products and bags to customers in the US and purchases from suppliers in the PRC. The Directors are of the opinion that the foreign exchange risk arising from US$ against RMB of the Group is insignificant and manageable.

During the year ended 31 December 2019, the Group has not entered into any agreement or commit to any financial instruments to hedge our exchange rate exposure relating to RMB and will continue to monitor its foreign exchange exposure. The Group will consider hedging significant foreign currency exposure should the need arises and no derivative financial instruments were held by the Group as at 31 December 2019 for speculative and investment purposes.

## Contingent Liabilities and Capital Commitments

As at 31 December 2019, the Group did not have any material contingent liabilities (31 December 2018: Nil). The Group had capital commitment of approximately HK$6.7 million in relation to expenditure on our factory expansion (31 December 2018: approximately HK$8.6 million) and there was no operating leases (31 December 2018: approximately HK$24.7 million) as at 31 December 2019. The decrease in operating leases commitments is mainly due to the adoption of HKFRS 16 “Leases” since 1 January 2019.

## Pledge of Assets

The Group did not have pledged assets as at 31 December 2019 (31 December 2018: Nil).

## Capital Structure

During the year ended 31 December 2019, there has been no change to the shares in issue and capital structure of the Company. The capital of the Company comprises ordinary shares and capital reserves. The Group finances its operations, working capital, capital expenditures and other liquidity requirements through a combination of funds generated from operations and net proceeds from the share offer.

## Future Plans for Material Investment and Capital Assets

The Group did not have any other plans for material investment and capital assets as at 31 December 2019 save for the factory expansion plan, details of which are set out in the prospectus of the Company dated 13 October 2017 (the "Prospectus").

## Significant Investments Held

As at 31 December 2019, the Group did not have any significant investment in equity interest in any other company and did not own any properties (31 December 2018: Nil).

## Securities Investments

In addition, the Group did not have any securities investment in any investee company with a value of 5% or more of the total assets of the Group as at 31 December 2019, which is required to be disclosed under Rule 18.41(4A) of the GEM Listing Rules.

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

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2019.

## Guarantee Performance in relation to the Acquisitions

The Group did not enter into any acquisition, which is required to be disclosed under the GEM Listing Rules, that the party in contract required to commit or guarantee on the financial performance in any kinds for the year ended 31 December 2019.

## Employees and Remuneration Policies

As at 31 December 2019, the Group had 160 full-time employees in Hong Kong and the PRC (31 December 2018: 139 employees), including the Directors. Total staff costs (including Directors' emoluments) were approximately HK$20.6 million for the year ended 31 December 2019 as compared to approximately HK$16.1 million for the year ended 31 December 2018. Such increase was mainly due to increase in headcount, general increase in salary of the PRC employees as well as discretionary staffs' bonus.

Remuneration is determined with reference to duties, responsibilities, experience and skills. On top of basic salaries, the Group provides discretionary bonuses to our senior management and key employees as incentive bonuses.

## Comparison between Business Objectives and Actual Business Progress

The following is a comparison between the Group's business plans as set out in the Prospectus and the Group's actual business progress for the year ended 31 December 2019 (the "Year"):

| Business plan for the Year as set out in the Prospectus | Actual business progress as at 31 December 2019 |
|---|---|
| **Expand the Hong Kong headquarters** | |
| — Costs will be incurred as rent and utility expenses for the new Hong Kong headquarters | — Apart from the rental of new office premises since February 2018, the Group has slowed down the expansion of Hong Kong headquarters to adapt to the current unstable economy and social environment in Hong Kong in 2019. |
| — Costs will be incurred as remuneration payable to the eight additional staff recruited for the expansion in the previous period | — The Group has recruited several experienced personnel for overseeing the overall operation of beauty products and beauty bags as well as senior officers for assisting the selling and marketing activities. |
| **Participate in local and global exhibitions** | |
| — Generally participate in one exhibition in Hong Kong and one exhibition overseas | — The Group participated in the China Beauty Expo 2019 in Shanghai, Makeup in Los Angeles and Luxepack New York in the US and has developed relationship with various potential customers from the exhibitions through the participation. |

## Use of Listing Proceeds

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

The future plan and scheduled use of proceeds as disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied with consideration of the actual development of business and market. As of 31 December 2019, the Group did not anticipate any change to the plan as to the use of listing proceeds. The majority of the unused net proceeds have been placed as interest bearing short-term demand deposits with a licensed bank in Hong Kong.

As at 31 December 2019, the net listing proceeds has been applied and utilized as follows:

| Use of net proceeds | Total net proceeds from share offer (HK$'000) | Total remaining net proceeds available as at 1 January 2019 (HK$'000) | Planned use of net proceeds for the year ended 31 December 2019 (HK$'000) | Utilized for the year ended 31 December 2019 (HK$'000) | Total remaining net proceeds available as at 31 December 2019 (HK$'000) |
|---|---|---|---|---|---|
| Upgrade production hardware, and facilities and infrastructure | 23,670 | 4,145 | **59** | **(4,145)** | **—** |
| Expand the Hong Kong headquarters | 11,245 | 9,378 | **5,000** | **(3,072)** | **6,306** |
| Participate in local and global exhibitions | 3,538 | 2,080 | **1,680** | **(2,080)** | **—** |
| General working capital | 3,665 | 1,570 | **1,570** | **(1,570)** | **—** |
| Total | 42,118 | 17,173 | **8,309** | **(10,867)** | **6,306** |

As at the date of this report, the upgrade of production hardware and infrastructure has been substantially completed. Subject to the business development and operation needs of the Group, the remaining proceed is expected to be fully utilised in next 18 months.

## Change in Auditors

There was no change in auditors of the Company in any of the preceding 3 years.

## Significant Event after the Reporting Period

Save as disclosed above and up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the year ended 31 December 2019.

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

## Executive Directors

**Mr. Or Naam**, aged 51, is one of the founders of our Group and has been with our Group since 1995. He was appointed as a Director on 8 February 2018 and re-designated as an executive Director and chief executive officer of our Company on 27 February 2018. Mr. Or is also a member of remuneration committee of the Company.

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

Mr. Or Naam is an entrepreneur. Over the past 25 years, he has gained start-up and operational experience in manufacturing and sales of packaging products (including beauty bags) and beauty products. In 1995, he joined our Group to design, develop and sell packaging products. Capitalising on our Group's experience in selling packaging products including seasonal and promotional beauty products gift packages, Mr. Or Naam further expanded our Group's business by providing "one-stop-service" to its customers, and our Group commenced the manufacturing of beauty products, from design, research, development and sourcing, to complement the packaging products for export to the U.S. and other markets.

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

Mr. Or Naam is the spouse of Ms. Chan Hoi Yan Polly (an executive director), son of Ms. Chu Siu Fong (controlling shareholder), brother of Mr. Or Huen (an executive director) and brother-in-law of Ms. Chan Hoi Man ("Ms. HM Chan"), a merchandising manager of the Group.

**Ms. Chan Hoi Yan, Polly**, aged 48, has been with our Group since 1995. She was appointed as an executive Director on 27 February 2018. Ms. Chan is currently the general manager of Takbo and a director of B&B, where she oversees all day-to-day aspects of our operations in Hong Kong including sales and marketing, business development, merchandising, design and finance.

Ms. Chan is an entrepreneur. Over the past 25 years, she has gained experience in manufacturing and sales of packaging products (including beauty bags) and beauty products. She joined our Group in 1995 and rose through the ranks over the next 11 years to become general manager of Takbo in 2006.

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

**Mr. Or Huen**, aged 43, has been with our Group since 2002. He was appointed as an executive Director on 27 February 2018. Mr. Or is also a member of nomination committee of the Company.

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

Mr. Or Huen is an entrepreneur. He has over 17 years of experience in manufacturing and sales of beauty products. Mr. Or Huen was a founding member of Cosbe and has been the general manager since its founding in 2002. At Cosbe Mr. Or Huen planned and built Cosbe's production facility. He established the key business divisions, the four pillars of Cosbe, namely the marketing centre, the development centre, the production centre and the quality control centre.

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

## Independent Non-executive Directors

**Mr. Tan Chong Huat**, aged 56, was appointed as an independent non-executive Director and the non-executive Chairman of the Company on 29 September 2017. He is the chairman of the remuneration committee and a member of audit committee of the Company.

Tan Chong Huat is the Senior Partner and one of the founding members of RHTLaw Taylor Wessing. Chong Huat is also the chairman of China ASEAN Business Alliance.

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

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

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

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

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

Chong Huat taught at the Law Faculty, National University of Singapore (AY 2007- 2013), Business School, National University of Singapore (AY 2008/2009), Nanyang Business School, Nanyang Technological University (AY 2008-2012) and various other universities in Asia. Besides authoring two leading literature on PRC Investment laws, he has co-authored leading titles on Corporate Governance and Corporate Finance Law.

**Mr. Sung Chi Keung**, aged 44, was appointed as an independent non-executive Director on 29 September 2017. He is the chairman of the audit committee and a member for each of the remuneration committee and nomination committee of the Company.

Mr. Sung has over 20 years of experience in financial management, accounting, taxation, auditing and corporate finance and previously worked for KPMG, PricewaterhouseCoopers Ltd. and Deloitte & Touche Corporate Finance Ltd. From December 2019, he has been the chief financial officer of Vershold Global Limited. From April 2015 to October 2019, he was the chief financial officer of China Chuanglian Education Financial Group Limited ("China Chuanglian") (formerly known as China Chuanglian Education Group Limited, China Oriental Culture Group Limited and ZZNode Technologies Company Limited), a company listed on the main board of the Hong Kong Stock Exchange (stock code: 2371).

From September 2018 to October 2019, Mr. Sung was appointed as a director of Premier Management Limited, which is a corporation licensed under the Securities and Futures Ordinance and an indirectly wholly owned subsidiary of China Chuanglian.

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

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

**Mr. Wong, Irving Holmes Weng Hoong**, aged 48, was appointed as an independent non-executive Director on 29 September 2017. He is the chairman of the nomination committee and a member of audit committee of the Company.

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

Mr. Wong was in the Beauty/Skincare industry for more than 16 years, predominantly with the L'Oreal Group. In 1998, he joined L'Oreal Malaysia where he held various management roles such as Merchandising Manager and National Sales Manager — Food/General Trade before being relocated to L'Oreal Hong Kong in 2007 as General Manager of Consumer Products Division.

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

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

## Senior management

**Mr. Leung Chu Ho**, aged 34, is the financial controller of our Group. Mr. Leung joined our Group in December 2016. He is responsible for financial planning, reporting and control, and internal control systems of our Group. Mr. Leung has over 12 years of experience in accounting and auditing. Prior to joining our Group, Mr. Leung worked at PricewaterhouseCoopers from April 2010 to December 2016 and his last position was an assurance manager.

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

**Ms. Lui Shuet Ching**, aged 50, is the accounting and finance manager of our Group. Ms. Lui joined our Group in September 1995 as a clerk of the account department and was promoted to her current position in April 2001. She is primarily responsible for supervising accounting operations, preparing accounting report, reviewing management report and monitoring cash flow status. Ms. Lui possesses over 23 years of experience in accounting and finance.

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

**Ms. Chan Hoi Man ("Ms. HM Chan")**, aged 40, is the merchandising manager of our Group. Ms. HM Chan joined our Group in May 1997 as a merchandiser and was promoted to her current position in February 2016. She is primarily responsible for leading and managing the operations of the merchandising team in the PRC, approving purchase orders of raw material for production, liaising with customers and providing price quotation. Ms. HM Chan has approximately 22 years of experience in the manufacturing industry. Ms. HM Chan is the sister of Ms. Chan.

**Ms. Chu Choi Yin ("Ms. CY Chu")**, aged 38, is the sales manager of our Group. Ms. CY Chu joined our Group in October 2005 as a sales executive and was promoted to her current position in April 2013. She is responsible for product development and customer service, as well as leading the sales team in the PRC to monitor the progress of projects. Ms. CY Chu has over 13 years of experience in the sales and marketing industry. Prior to joining our Group, Ms. CY Chu was a merchandiser at Ellon Gift Products Ltd. from August 2001 to June 2003.

**Mr. Ng Chit Sing ("Mr. Ng")** was appointed as our company secretary in February 2017. He is the chief executive officer of IN Corporate Services Limited specialising in the provision of corporate secretarial services to listed issuers and private companies.

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

# Report of the Directors

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements of the Group (the "Consolidated Financial Statements") for the year ended 31 December 2019 (the "Year").

## Principal Activities and Business Review

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

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

## Environmental Policies and Performance

Discussion on the environmental policies and performance is contained in the "Environmental, Social and Governance Report" on pages 47 to 59 of this annual report. This discussion form part of the report of directors.

## Compliance with Laws and Regulations

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

### Relationship with key parties

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

### Customers

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

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

### Suppliers

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

### Employees

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

### Shareholders

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

## Principal Risks and Uncertainties

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

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

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

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

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

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

## Results and Appropriations

The results of the Group for the Year are set out in the Consolidated Financial Statements on pages 65 to 125.

The Directors did not recommend the payment of a final dividend to shareholders of the Company for the Year (31 December 2018: Nil).

## Five Years Financial Summary

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

## Share Capital

As at 31 December 2019, 400,000,000 shares of the Company were in issue. Details of the movement in share capital during the Year are set out in note 22 to the Consolidated Financial Statements.

## Equity-Linked Agreements

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

## Pre-Emptive Rights

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

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

The Company has not redeemed any of its shares during the Year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Year.

## Distributable Reserves

As at 31 December 2019, the Company did not have any reserves available for distribution (31 December 2018: Nil). Details of the movement in reserve of the Company during the Year are set out in note 31 to the Consolidated Financial Statements.

## Charitable Donations

During the Year, there is no charitable and other donations made by the Group (31 December 2018: HK$6,000).

## Major Customers And Suppliers

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

| | |
|---|---|
| Purchases | |
| — the largest supplier | 8.8% |
| — five largest suppliers in aggregate | 26.6% |
| Sales | |
| — the largest customer | 21.3% |
| — five largest customers in aggregate | 77.9% |

For the Year, one of our top five suppliers is connected person of the Company and supplied the Group with beauty bags.

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

For details, please refer to the paragraph headed "Continuing Connected Transactions" on pages 22 to 24 of this annual report.

## Directors and Directors' Service Contracts

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

### Executive Directors:

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

### Independent Non-executive Directors:

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

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

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

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

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

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

Accordingly, Mr. Sung Chi Keung and Mr. Wong, Irving Holmes Weng Hoong shall retire from office at the forthcoming annual general meeting to be held on 11 May 2020 (Monday) (the "AGM"). All of the retired directors, being eligible, offer themselves for re-election, at the AGM.

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

## Confirmation on Independence

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

## Biographical Details of Directors and Senior Management

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

## Changes of Directors' Information

The Company is not aware of any change in the directors' information which are required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules since the publication of interim report for the six months ended 30 June 2019 of the Company.

## Permitted Indemnity Provisions

Pursuant to Article 164 of the Articles of Association of the Company, the Directors, secretary and other officers and every auditor for the time being of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Such provision was in force during the Year. In addition, the Company has also maintained Directors' and officers' liability insurance during the Year, which provides appropriate cover for the directors and officers of the Group.

## Directors' Emoluments and Five Highest Paid Individuals

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

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

## Emolument Policy

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

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

During the Year, the Group entered into certain related party transactions including continuing connected transactions, which are disclosed in note 30 to the Consolidated Financial Statements and under headed "Continuing Connected Transactions" below. Such transactions were conducted in the normal course of business and have been disclosed pursuant to the GEM Listing Rules for compliance purposes, if required.

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

## Continuing Connected Transactions

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

| Agreement | Parties | Term | Location | Annual cap for the year ended 31 December 2019 (HK$'000) | Actual amount paid for the year ended 31 December 2019 (HK$'000) |
|---|---|---|---|---|---|
| Hong Kong Office Tenancy Agreement 1 | Takbo (as tenant) and Sky Choice* (as landlord) | 3 years from 1 February 2018 | C2, 35th Floor, EGL Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong | 202 | 201 |
| Hong Kong Office Tenancy Agreement 2 | Takbo (as tenant) and Sky Choice* (as landlord) | 3 years from 27 October 2017 | Room B, 35th Floor, EGL Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong ("EGL Tower") and car parking space nos. P24, P25 and P26 located on 2nd Floor, EGL Tower | 877 | 877 |
| Residential Tenancy Agreement | Takbo (as tenant) and Smart Path* (as landlord) | 3 years from 27 October 2017 | House 62, The Giverny, Man Kei Toi, Pak Sha Wan, Sai Kung, New Territories, Hong Kong | 1,200 | 1,200 |
| Factory Tenancy Agreement 1 | Cosbe (as tenant) and Baoma* (as landlord) | 10 years from 27 October 2017 | Factory, warehouse and office premise at No. 5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC | 1,550 for Factory Tenancy Agreements 1 and 2 | 1,323 |

| Agreement | Parties | Term | Location | Annual cap for the year ended 31 December 2019 (HK$'000) | Actual amount paid for the year ended 31 December 2019 (HK$'000) |
|---|---|---|---|---|---|
| Factory Tenancy Agreement 2 | Cosbe (as tenant) and Baoma (as landlord) | 10 years from 27 October 2017 | Factory premise at No. 5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC | | |
| Factory Tenancy Agreement 3 | Cosbe (as tenant) and Baoma (as landlord) | 10 years from 27 October 2017 | 1st to 4th Floors of South Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC | 4,300 for Factory Tenancy Agreements 3 and 4 | 1,760 |
| Factory Tenancy Agreement 4 | Cosbe (as tenant) and Baoma (as landlord) | 10 years from 27 October 2017 | 1st to 4th Floors of North Building and West Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC | | |
| PRC Office Tenancy Agreement 1 | Takbo (as tenant) and Baoma (as landlord) | 3 years from 27 October 2017 | Factory premise situated at 2nd Floor of Block C, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC | 53 | 50 |
| PRC Office Tenancy Agreement 2 | Baoma (as landlord) and Takbo (as tenant) | 2 years from 1 January 2019 | 1st level of 2nd Floor of Block C, No. 1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC | 47 | 47 |

| Agreement | Parties | Term | Location | Annual cap for the year ended 31 December 2019 (HK$'000) | Actual amount paid for the year ended 31 December 2019 (HK$'000) |
|---|---|---|---|---|---|
| Purchase Framework Agreement | Takbo and Cosbe (as purchaser) and Baoma (as supplier) | 3 years from 27 October 2017 | N/A | 13,500 | 9,628 |

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

## Confirmation of Independent Non-executive Directors

Pursuant to Rule 20.53 of the GEM Listing Rules, the audit committee comprising 3 independent non-executive Directors, under the authority delegated by the Board, reviewed all the aforesaid continuing connected transactions. All of the independent non-executive directors confirmed that:

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

During the Year, the actual amounts of all the continuing connected transactions paid under the agreements did not exceed the respective aggregate annual cap as previously disclosed in the Prospectus and the respective announcements of the Company.

## Confirmation of Auditor of the Company

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

## Non-competition Undertaking

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

The Company has received the confirmation from the Controlling Shareholders in respect of their compliance with the terms of non-competition undertaking for the Year.

The independent non-executive Directors had reviewed and confirmed that the Controlling Shareholders have complied with the non-competition undertaking and the non-competition undertaking has been enforced by the Company in accordance with its terms for the Year. Furthermore, there was no new business opportunities referred by the Controlling Shareholders to the Company during the Year.

## Related Parties Transactions

Details of the related parties transactions undertaken in the normal course of business are set out in note 30 to the Consolidated Financial Statements. Certain of which also constitute discloseable connected transactions under the GEM Listing Rules. These connected transactions have complied with the requirements under Chapter 20 of the GEM Listing Rules.

## Conflict of Interests

Saved as disclosed above, during the Year, none of the directors, the substantial shareholders or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

## Share Option Scheme

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

The purpose of the Share Option Scheme is to advance the interests of the Company and the shareholders by enabling the Company to grant options to attract, retain and reward the eligible persons, namely directors, employees, consultants, advisers, any provider of goods and/or services to the Group; any customer of the Group and any person, who at the sole discretion of the Board, has contributed to the Group, and to provide the eligible persons an incentive or reward for their contribution to the Group and by enabling such persons' contribution to further advance the interests of the Group.

Pursuant to the Share Option Scheme, the Company may grant options to eligible persons to subscribe shares of the Company until any inside information has been announced, if any.

An offer shall remain open for acceptance by the Eligible Person concerned for such period as determined by the Board, being a date not later than ten Business Days after the offer date by which the Eligible Person must accept the offer or be deemed to have declined it, provided that no such offer shall be open for acceptance after the tenth anniversary of the date of adoption of the Share Option Scheme or after the Share Option Scheme has been terminated in accordance with the provisions of the Share Option Scheme. The amount payable by the grantee to our Company on acceptance of the offer shall be a nominal amount to be determined by the Board.

Unless the Company obtains a fresh approval from the shareholders pursuant to the conditions set out in the Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes shall not in aggregate exceed 10% of the total number of shares in issue from time to time. As at the date of this annual report, the number of issued Shares of the Company is 400,000,000 Shares and total number of shares issued or to be issued under the Share Option Scheme of the Company is 40,000,000 Shares which represented approximately 10% (2018: 10%) of the issued share capital of the Company, if all the options under the Share Option Scheme have been granted to and duly exercised by eligible persons.

The total number of shares issued and to be issued upon exercise of the options granted to each eligible person (including both exercised and outstanding options under the Share Option Scheme) in any twelve-month period must not exceed 1% of the issued share capital of the Company. Where any further grant of options to an eligible person would result in excess of such limit shall be subject to the approval of the shareholders at general meeting with such eligible person and his close associates (or his associates if the eligible person is a connected person) abstaining from voting.

Where options are proposed to be granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates, and the proposed grant of options will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant representing in aggregate over 0.1% of the issued share capital of our Company and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such grant of options must be subject to the approval of the Shareholders at general meeting. The grantee involved in such proposed grant of options, his associates and all core connected persons of our Company must abstain from voting in such general meeting (except that any such persons may vote against the proposed grant provided that his intention to do so has been stated in the relevant circular to the Shareholders).

The Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption to 28 September 2027, after which period no further options will be granted or offered.

The share options are exercisable at any time during period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the Board of Directors.

The exercise price of the share option will be not less than the highest of:

(a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date;

(b) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

(c) the nominal value of a Share on the offer date.

As at 31 December 2019, there was no option outstanding, granted, cancelled, exercised or lapsed.

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

Apart from the aforesaid Share Option Schemes, at no time during the year ended 31 December 2019 was the Company or any associated corporation a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such rights.

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

As at 31 December 2019, the interests or short positions of Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

#### (i) Interests in the Company

*Interests in ordinary shares*

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

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

Save as disclosed above, as at 31 December 2019, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

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

As at 31 December 2019, the following persons/entities (not being Directors or chief executive of our Company) have an interest or a short position in the Shares or the underlying Shares which were disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, were as follows:

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

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

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

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Interests of the Compliance Adviser

As notified by Lego Corporate Finance Limited, compliance adviser of our Company, neither Lego Corporate Finance Limited nor any of its close associates (as defined in the GEM Listing Rules) and none of the directors or employees of Lego Corporate Finance Limited had any interest in the share capital of the Company or any member of our Group (including options or rights to subscribe for such securities, if any) which is required to be notified to our Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 December 2019.

## Sufficiency of Public Float

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

## Corporate Governance Report

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 31 to 46 in this annual report.

## Annual General Meeting ("AGM")

The AGM of the Company will be held on 11 May 2020 (Monday) and the notice convening such meeting will be published and despatched to the shareholders of the Company in due course.

## Closure of the Register of Members

The Register of Members of the Company will be closed from 6 May 2020 (Wednesday) to 11 May 2020 (Monday) (both days inclusive), during which period to transfers of shares will be registered. To determine the entitlement to attend and vote at the AGM of the Company, all transfer document, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5 May 2020 (Tuesday).

## Auditor

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

By order of the Board
**Takbo Group Holdings Limited**
**Or Naam**
*Chief Executive Officer and Executive Director*

Hong Kong, 16 March 2020

## Corporate Governance Principles and Practices

The Board and the management of the Company are committed to a high standard of corporate governance. The Company considers such commitment is essential for the effective management. The Company's corporate governance practices are based on the principles and code provisions as set out in the corporate governance codes (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules.

During the year ended 31 December 2019 (the "Year"), the Board considers that the Company has complied with all the CG Code as set out in Appendix 15 to the GEM Listing Rules. Details of compliance of the CG Code during the Year are explained in this corporate governance report.

### Code of Conduct for Securities Transactions by Directors

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

## The Board of Directors

### Responsibilities

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

### Composition

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

Throughout the Year, the Board comprises six Directors. As at 31 December 2019 and up to the date of this annual report, there are three executive Directors and three independent non-executive Directors of the Company. The composition of the Board is as follows:

#### Executive Directors:

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

#### Independent Non-executive Directors:

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

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

The relationship among members of the Board and biographical details and responsibilities of the Directors as well as the senior management are set out in the section "Biographical Details of the Directors and Senior Management" on pages 11 to 15. The updated list of Directors and their role and function are published at the GEM website and the Company's website at www.takbogroup.com.

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

The Board is accountable to shareholders for the Company's performance and activities. While the Board is primarily overseeing and managing the Company's affairs, the executive Directors constituting the senior management of the Company are delegated with responsibilities in the day-to-day management of the Company and make operational and business decisions within the control of and delegation framework of the Company. The independent non-executive Directors contribute valuable views and proposals for the Board's deliberation and decisions.

## Chairman and Chief Executive Officer

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

## Independent Non-executive Directors

The Company has throughout the Year met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications, accounting or related financial management expertise. At all times during the Year, the independent non-executive Directors represent at least one-third of the Board pursuant to Rule 5.05A of the GEM Listing Rules.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

## Confirmation of Independence

Each of the independent non-executive Directors including their respective immediate family members has made an annual confirmation of independence pursuant to 5.09 of the GEM Listing Rules to the Company in respect of their independence for the Year. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines throughout the Year.

## Appointment and Re-election of Directors

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

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

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

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

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

## Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors.

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

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

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

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

*Note a:* Attended as an invitee

## Practices and Conduct of Meetings

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

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

At the annual general meeting, the Chairman as well as chairmen of the nomination committee, remuneration committee and audit committee or, in their absence, other members of the respective committees shall attend to answer questions from shareholders at the annual general meeting.

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

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

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

## Procedure for Seeking Independent Professional Advice by Directors

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

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

## Induction and Continuous Professional Trainings of Directors

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

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

The Directors have also been informed of the requirement under Code Provision A.6.5 of the CG Code as set out in Appendix 15 to the GEM Listing Rules regarding continuous professional development and they may join institutes and attend relevant training seminars or informative talk from time to time to enable them to better discharge their duties. The Company encourages the directors to attend courses in areas of directors' duties and responsibilities, corporate governance, changes in financial reporting standards, insider trading and any industry-related matters, to develop themselves professionally, at the Company's expense.

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

— briefing by the external auditor on changes or amendments to accounting standards at the AC meetings; and
— update by the Company Secretary on amendments to the GEM Listing Rules, directors' duties and responsibilities as well as risk management from time to time.

The Company shall from time to time, if necessary, arrange for relevant and appropriate continuous professional training to all Directors to develop and refresh their knowledge and skills to enable them to be better discharge their duties as a Director of the Company. During the Year, the Company consider that regulatory updates provided to all the Directors could assist them to discharge their duties.

## Board Committees

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

### Audit Committee

The Company established an audit committee on 29 September 2017 with written terms of reference in compliance with Rule 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The latest terms of reference of the audit committee are available on the websites of the Company and the Stock Exchange.

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

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

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

All of the members of the audit committee are independent non-executive Directors. None of them (including their immediate family members) is a former partner of the Company's existing auditing firm within 2 years immediately prior to their respective date of appointment. All of them (including their immediate family members) do not have material interest in any principal business activity of nor is or was involved in any material business dealings with the Group or with any core connected persons (as defined in the GEM Listing Rules) of the Group within one year immediately prior to their respective date of appointment.

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

During the Year, the audit committee held four meetings. Details of the attendance of the members of the audit committee in the said meeting are set out under the sub-heading "Directors' Attendance at Board/Board Committee/ General Meetings" above. The summary of work of the audit committee during the Year is as follows:

— To meet with the external auditors, review and make recommendations for the Board's approval on the financial statements, quarterly, interim and annual reports and continuing connected transactions of the Group;
— To review and approve audit fee;
— To review and assess the independence of the auditors;
— To review the terms of engagement and make recommendation to the Board for the re-appointment of auditors of the Company, subject to the Shareholders' approval at the annual general meeting;
— To review the non-competition undertaking by the controlling shareholders of the Company;
— To review the continuing connected transaction of the Company;
— To review the effectiveness of the Company's risk management and internal control systems; and
— To review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

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

## Remuneration Committee

The Company established the remuneration committee on 29 September 2017 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and the CG Code. The latest terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange.

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

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

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

The majority members of the remuneration committee are independent non-executive Directors. During the Year, the remuneration committee held one meeting. Details of the attendance of the members of the remuneration committee in the said meeting are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above. The summary of work of the remuneration committee during the Year is as follows:

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

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

## Nomination Committee

The Company established the nomination committee on 29 September 2017 with written terms of reference in compliance with paragraph A.5 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The written terms of reference of the nomination committee are available on the websites of the Company and the Stock Exchange.

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

The composition of the nomination committee during the Year is as follows:

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

The majority members of the nomination committee are independent non-executive Directors. During the Year, the nomination committee held one meeting. Details of the attendance of the members of the nomination committee in the said meeting are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above. The summary of work of the nomination committee during the Year is as follows:

— To review the existing Board's structure, size and composition;
— To review the board diversity policy;
— To review the nomination policy;
— To review and assess the independence of the independent non-executive Directors; and
— To make recommendations on the re-election of the retiring Directors at the 2020 AGM of the Company.

## Board Nomination Policy

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

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

## Nomination Process

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

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

## Selection Criteria

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

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

## Board Diversity Policy

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

The Company noted that people from different backgrounds and with different professional and life experience are likely to approach problems in different ways and accordingly, members of the Board with diverse backgrounds will bring different concerns and questions to the table, and allow the Board to consider a wider range of options and solutions when deciding on corporate issues and formulating policies for the Group. In determining the Board's composition and selection of candidates to the Board, nomination committee will consider factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service.

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

## Composition of the Diversified Board

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

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

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

The nomination committee considers the existing size and composition of the Board are adequate and diversified for effective decision-making, taking into account the nature and scope of the Group's operations. The nomination committee has monitored the implementation of the board diversity policy, and also reviewed its effectiveness and concluded that no revision to the policy is required at the last nomination committee meeting held.

### Corporate Governance Function

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

— To review the Company's policies and practices on corporate governance and make recommendations;
— To review and monitor the training and continuous professional development of Directors and senior management of the Group;
— To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
— To develop, review and monitor the code of conduct and compliance manual applicable to employees of the Group and the Directors; and
— To review the Company's compliance with CG Code and disclosure in the corporate governance report.

## Accountability and Audit

### Financial Reporting

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

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

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors about their reporting responsibilities is set out in the "Independent Auditors' Report" on pages 60 to 64 of the Consolidated Financial Statements.

## Risk Management and Internal Control Systems

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

Management also regularly reviews the Group's business and operations to identify areas of significant business risks and controls to mitigate the risks. The management will highlight all significant matters to the Board and audit committee members from time to time.

During the year ended 31 December 2019, the audit committee of the Company, through the engagement of APAC Compliance Consultancy and Internal Control Services Limited ("APAC"), reviewed the adequacy and effectiveness of the Group's system of risks management and internal controls including risk management process, resources, qualifications and experience of staff of accounting, internal audit and financial reporting, investment management process, expenditure requisition process, intangible assets management process and fixed assets management process in the Group's operation in Hong Kong, PRC and US.

APAC has reported to the audit committee that they has identified, evaluated and managed risks during the year ended 31 December 2019, based on their procedures performed, and reported that no significant deficiencies were identified and recommendations on the various aspects had been suggested to audit committee and management for their consideration.

The audit committee also reported such findings and recommendations to the Board for the improvement of the risk management and internal control systems of the Group and the Board considered that all recommendations should be properly followed to ensure the sound and effectiveness of the risk and internal control systems of the Group can be maintained.

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

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

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

The Company is adopting the recommendations from APAC to enhance its risk management and internal control procedures and would implement appropriate policies and programmes.

## Internal Audit

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

## Inside Information

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

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

## External Auditor's Remuneration

During the Year, the Company engaged PricewaterhouseCoopers as the external auditors. The fee in respect of audit services and non-audit services provided by PricewaterhouseCoopers for the Year amounted to HK$900,000 and HK$565,000 respectively.

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

## Company Secretary

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

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

## Changes in Constitutional Documents

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the websites of the Company and the Stock Exchange its Memorandum and Articles of Association. During the Year, there has been no changes in the constitutional documents of the Company.

## Non-Competition Undertaking from Controlling Shareholders

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

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

## Shareholders' Rights

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

According to Article 58 of the Articles of Association of the Company, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

### The Procedures for Sending Enquiries to the Board

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

## Communication with Shareholders and Investors

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

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

The forthcoming annual general meeting of the Company is scheduled to be held on 11 May 2020 (Monday). At the annual general meeting, the chairman of the Board as well as chairmen of the nomination committee, remuneration committee and audit committee or, in their absence, other members of the respective committees shall attend to answer questions from shareholders at the annual general meeting. The representatives of the external auditors shall also present and available to answer questions at the meeting.

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

## Policy on Payment of Dividends

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

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

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

Hong Kong, 16 March 2020

# Environmental, Social and Governance Report

## About This Report

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

### Preparation Basis and Scope

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

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

### Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2019 to 31 December 2019.

### Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by Enquiries@TakboGroup.com.

## Introduction

The Group is principally engaged in (i) the design, development, manufacture and sale of beauty products; and (ii) the design, development and sale of beauty bags. We are dedicated to creating from concepts to innovative and multifunctional designs that worth for values for our customers' needs. We strive to provide the highest quality products to our customers through design, marketing and manufacturing solutions and from design, development to delivery. We believe that we are a well-established beauty products manufacturer in the PRC as we have successfully operated such business for approximately 16 years.

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

## Stakeholder Engagement and Materiality Assessment

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

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

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

| Stakeholders | Expectations | Engagement channels | Measures |
|---|---|---|---|
| **Government** | — Comply with the laws<br>— Proper tax payment<br>— Promote regional economic development and employment | — On-site inspections and checks<br>— Research and discussion through work conferences, work reports preparation and submission for approval<br>— Annual reports<br>— Website | — Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation (e.g. accepted 1–2 on-site inspections throughout the year), and actively undertook social responsibilities |

| Stakeholders | Expectations | Engagement channels | Measures |
|---|---|---|---|
| **Shareholders and Investors** | — Low risk<br>— Return on the investment<br>— Information disclosure and transparency<br>— Protection of interests and fair treatment of shareholders | — Annual general meeting and other shareholder meetings<br>— Annual report, announcements | — Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/circulars and three periodic reports in total in the year. Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing once. Disclosed company contact details on website and in reports and ensured all communication channels are available and effective |
| **Employees** | — Safeguard the rights and interests of employees<br>— Working environment<br>— Career development opportunities<br>— Self-actualisation<br>— Health and safety | — Trainings, seminars, briefing sessions<br>— Cultural and sport activities<br>— Newsletters<br>— Intranet and emails | — Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labor unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organising employee activities |
| **Customers** | — Safe and high-quality products<br>— Stable relationship<br>— Information transparency<br>— Integrity<br>— Business ethics | — Website, brochures<br>— Email and customer service hotline<br>— Regular meeting | — Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements |
| **Suppliers/Partners** | — Long-term partnership<br>— Honest cooperation<br>— Fair, open<br>— Information resources sharing<br>— Risk reduction | — Business meetings, supplier conferences, phone calls, interviews<br>— Regular meeting<br>— Review and assessment<br>— Tendering process | — Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors |

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 20 of the GEM Listing Rules) and the guidelines of Global Reporting Initiative ("GRI").

The Group has evaluated the materiality and importance in ESG aspects through the following steps:

**Step 1: Identification — Industry Benchmarking**

- Relevant ESG areas were identified through the review of relevant ESG reports of the local and international industry peers.

- The materiality of each ESG area was determined based on the importance of each ESG area to the Group through internal discussion of the management and the recommendation of ESG Reporting Guide (Appendix 20 of the GEM Listing Rules).

**Step 2: Prioritization — Stakeholder Engagement**

- The Group discussed with key stakeholders on key ESG areas identified above to ensure all the key aspects to be covered.

**Step 3: Validation — Determining Material Issues**

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured all the key and material ESG areas, which were important to the business development, were reported and in compliance with ESG Reporting Guide.

As a result of this process carried out in 2019, those important ESG areas to the Group were discussed in this Report.

## Environmental Aspects

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

## Emissions

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

## Air Pollutant Emission

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

Air pollutants emitted from the beauty products production process were collected and treated by activated carbon and carbon fiber absorption to reduce the air pollutants emission to the atmosphere. The increase in air pollutants emission in 2019 was mainly attributable to the increase in production volume and sales of beauty products and beauty bags during the year. The air pollutant emission during the reporting period is as follows:

| Air Pollutants | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Nitrogen oxides ($NO_x$) | kg | 409.59 | 0.60 | **410.19** | **382.26** |
| Sulfur dioxide ($SO_2$) | kg | 0.46 | 0.04 | **0.50** | **47.75** |
| Particulate matter (PM) | kg | 51.31 | 0.02 | **51.33** | **0.52** |

## Greenhouse Gas ("GHG") Emission

Climate change has become a major challenge to the world. The Group manages the carbon footprint by minimizing the energy consumption and water consumption as these activities cause significant emission of GHG. Production activity is the main sources of GHG emitted by the Group. Our Group is taking action to minimise the GHG emissions in our operations. We have adopted energy saving initiatives that are mentioned in the section "Use of Resources". The increase in GHG emission in 2019 was attributable to the increase in production volume and sales of beauty products and beauty bags during the year. During the reporting period, the GHG emission is as follows:

| GHG Emission[1] | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Scope 1[2] | tonnes of $CO_2$-e | 43.66 | 2.98 | **46.64** | **10.17** |
| Scope 2[3] | tonnes of $CO_2$-e | 1,016.20 | 43.33 | **1,059.53** | **645.04** |
| Total | tonnes of $CO_2$-e | 1,059.86 | 46.31 | **1,106.17** | **655.22** |
| GHG emission intensity | PRC: tonnes of $CO_2$-e/tonnes of production | **0.44** | | | **PRC: 0.32** |
| | HK: tonnes of $CO_2$-e/m$^2$ | | **0.11** | | **HK: 0.08** |

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

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

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

## Hazardous and Non-hazardous Wastes

Hazardous wastes produced during our production process are handled in accordance with the relevant PRC laws and regulations. The Group has commissioned a qualified contractor to handle or dispose of certain toxic liquid and solid waste, such as emulsions, mineral oils and waste lamps for the Cosbe Facility in the PRC. These wastes are separately stored and handled for record. Non-hazardous wastes generated from the Group includes paper, plastic, metal and food wastes. The Group has implemented various measures to reduce wastes in the daily operation, which include: (i) double-sided printing of paper is recommended; and (ii) our employees are discouraged from using disposable tableware and shopping bags are provided for them when eating out.

The decrease in the amount of hazardous wastes and non-hazardous wastes generated in 2019 was mainly attributable to the Group's effort on implementing waste-free initiatives in reducing wastes during the year. The wastes generated by the Group during the reporting period are as follows:

| Waste Disposal | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Hazardous wastes produced | tonnes | 0.07 | — | **0.07** | **0.10** |
| Hazardous wastes produced intensity | tonnes/tonnes of production | 0.000031 | — | **0.000031** | **0.00005** |
| Non-hazardous wastes produced | tonnes | 4.64 | — | **4.64** | **5.29** |
| Non-hazardous wastes produced intensity | tonnes/employee | 0.032 | — | **0.032** | **0.05** |

The Group put effort in recycling different waste materials. The decrease in the amount of non-hazardous wastes recycled in 2019 was mainly attributable to the group's effort on implementing waste-free initiatives in reducing wastes during the year. The amount of non-hazardous wastes recycled during the reporting period is as follows:

| Non-hazardous wastes recycled | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Plastic and paper | tonnes | 2.86 | 0.84 | **3.70** | **3.82** |
| Metal | tonnes | 1.54 | — | **1.54** | **1.77** |
| Non-hazardous wastes recycled intensity | tonnes/employee | 0.03 | 0.05 | **0.03** | **0.04** |

## Wastewater

The Group has obtained the pollutant emission permit for wastewater to ensure all wastewater generated during our production process can be safely handled according to the national safety standards before external discharge. We have commissioned an experienced wastewater treatment company to formulate a wastewater treatment process. Suppliers also need to provide safety certifications for raw materials, hence, this can prevent the hazardous wastewater from being produced during our production process. During the reporting period, 7,298 $m^3$ (2018: 9,272 $m^3$) of wastewater was treated and discharged according to the national safety standards.

## Use of Resources

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

### Energy

The Group considers environmental protection as an essential component of a sustainable and responsible business. The Group aims to promote resource saving and implement suitable energy saving measures in order to improve the energy saving performance. We are also exploring energy saving and green management measures for our facilities, and strive to reduce resource consumption as much as possible. For example, we have used the energy-efficient lights and grade 1 air-conditioners. Owing to the increase in sales of beauty products and beauty bags, the amount of total energy consumption increased accordingly in 2019. During the reporting period, the energy consumption is as follows:

| Energy Consumption | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Purchased electricity | kWh in '000s | 1,510.98 | 65.65 | **1,576.63** | **972.86** |
| Diesel | kWh in '000s | 142.38 | — | **142.38** | **132.19** |
| Petrol | kWh in '000s | 25.79 | 9.78 | **35.57** | **38.89** |
| Total energy consumption | kWh in '000s | 1,679.15 | 75.43 | **1,754.58** | **1,143.94** |
| Energy consumption intensity | PRC: kWh in '000s/tonnes of production | **0.69** | | **—** | **PRC: 0.52** |
| | HK: kWh in '000s/$m^2$ | | **0.17** | | **HK: 0.16** |

### Water

Water is also another important resource used for the daily operation. For saving the use of water, water used for cleaning purpose is recycled for the washing to control dust level in the Cosbe Facility in the PRC. In HK, the water supply service in the office is provided by the building management company. In this case, water consumption data is not available. However, we raise the awareness of employees about water saving through different channels. The decrease in water consumption and its intensity in 2019 was mainly due to the Group's effort in conserving water with aforementioned water-saving strategies implemented during the year. The water consumption during the reporting period is as follow:

| Water Consumption | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Water consumption | $m^3$ | 8,560 | N/A | **8,560** | **10,626** |
| Water consumption intensity | PRC: $m^3$/tonnes of production | 3.53 | N/A | **3.53** | **0.49** |

## Packaging Materials

The major packaging materials used in our manufacture business in the PRC are paper, metal and plastic. The increase in packaging materials consumption for paper and plastic in 2019 was mainly attributable to the increase in sales of beauty products and beauty bags during the year. The consumption of those materials is as follows:

| Packaging materials consumption | Unit | 2019 PRC | 2019 HK | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Paper | tonnes | 1,046.84 | — | **1,046.84** | **931.00** |
| Plastic | tonnes | 348.13 | — | **348.13** | **107.93** |
| Metal | tonnes | 36.57 | — | **36.57** | **44.26** |
| Packaging materials consumption intensity | PRC: tonnes/tonnes of production | 0.59 | — | **0.59** | **0.52** |

# The Environment and Natural Resources

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

# Social Aspects

## Employment and Labour Practices

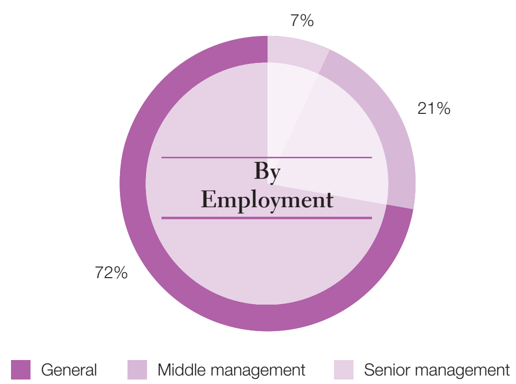
### Employment

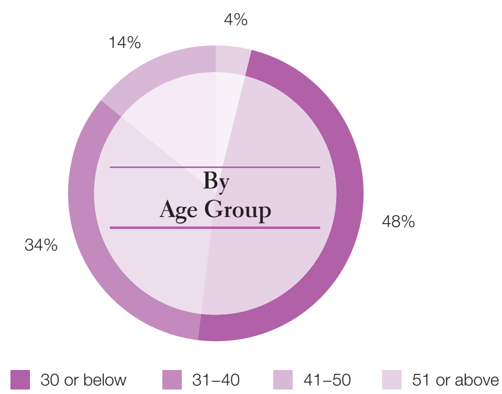
The Group believes people are important assets and competent staff is the foundation for success and development of the Group. Policies are in place to stipulate key human resources management practices in recruitment, promotion, resignation, working hours, equal opportunities and compensation benefits.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

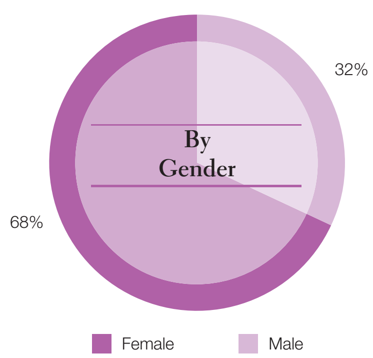
The Group also advocates harmonious and work-life balance culture through organizing a diversified choice of activities for employees. We organised annual dinner, annual travel and employee gatherings during the reporting period. Those activities can enable employees to relax and enhance the communications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

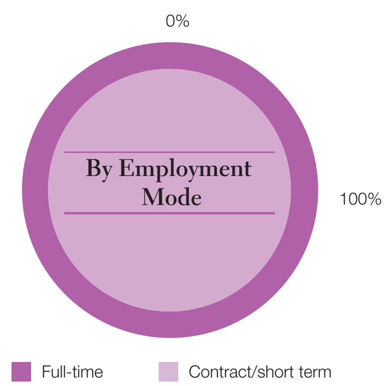
The adoption of these human resources policies and procedures also ensures the Group's compliance with the relevant labour laws and regulations where it operates, including "Employment Ordinance" in HK and "Labour Law of the People's Republic of China". During the reporting period, there was no non-compliance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

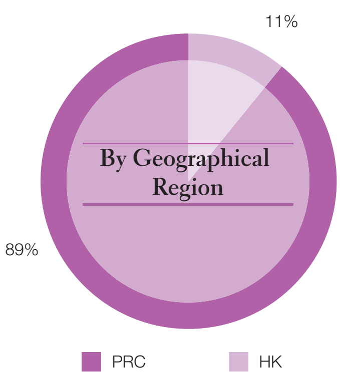
As at 31 December 2019, the employee compositions (in percentage of employees) by gender, employment type, age group and geographical region were as follows:




## Health and Safety

The Group is committed to providing a healthy and safe workplace for all its employees. We take work safety seriously in our Cosbe Facility and have established measures to promote work safety and to ensure compliance with applicable laws and regulations in the PRC. In 2019, no concluded cases regarding health and safety brought against the issuer or its employees were noted. Besides, no cases regarding the number and rate of work-related fatalities occurred for each of the past 3 years including the current reporting period.

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

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

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

## Development and Training

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

1. **Orientation trainings** — New employees will receive orientation trainings related to corporate culture.

2. **Job skills trainings** — All new and internally transferred employees will receive trainings related to department functions, job responsibilities and job skills within the first week of work to ensure they have a complete understanding of the job.

3. **External trainings** — Professional trainings for certain job positions based on the operation needs of the Group.

4. **Trainings and assessment for employees in special position** — Certification trainings for specialists. The Group invites related government departments and institutions to deliver trainings to ensure employees can perform duties with relevant qualifications.

In 2019, the detailed breakdown of the percentage of employees trained and the average training hours completed per employee by gender and employee category is as follows:

| Training | Average training hours (hours/ employee) | Percentage of employee trained (%) |
|---|---|---|
| **By gender** | | |
| — Male | 22.5 | 95.7 |
| — Female | 23.1 | 92.9 |
| **By employment category** | | |
| — Senior management | 17.8 | 100.0 |
| — Middle management | 20.5 | 78.8 |
| — General | 24.0 | 97.4 |

## Labour Standards

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

## Operating Practices

### Supply Chain Management

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

During the reporting period, the Group has 503 suppliers which are located in PRC. Every supplier needs to sign a letter of commitment on taking up social responsibility based on ICTI CARE requirement before starting cooperation with us. The Group irregularly checks the ICTI CARE compliance with the suppliers and provides related trainings, including EHS training to the suppliers in order to prevent the suppliers from serious violation of relevant laws and regulations. If violation is observed from suppliers, the Group will suspend the cooperation.

## Product Responsibility

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

### Quality Management

In order to enhance the quality of products and services provided by the Group, the Group has set up internal policies — "Product Inspection Procedures", "Products Recall Guidelines" and other related procedures in accordance with the requirement of ISO 9001:2015 — Quality Management System. Inspections are performed in different stages of the production line before the products are packed for delivery to ensure the quality of products. Procedures for control of nonconforming products shall apply to protect customers against safety risks for any products which are inspected to be unqualified. If products are recalled for safety and health reasons unfortunately, product recalling procedures and analysis shall be carried out to reduce similar incidents. During the reporting period, none of our products sold was subject to any recalls for safety and health reasons.

The Group's department of commerce is responsible for dealing with the complaints from customers. Prompt response will be made and the problem will be tackled to prevent similar complaints from happening. During the year 2019, no complaints related to the quality of products were received by the Group. Regular customer satisfaction survey is carried out bi-annually for the continuous improvement of quality of products and services.

### Intellectual Property Protection

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

### Customer Information Protection

The Group respects customer data privacy and is committed to preventing customer data leakage or loss. According to the Group's "Customers Property Control Procedures", collected customer personal data and property are accessible only by authorised personnel and handled with care. The Group complies with relevant customer information protection laws and regulations. During the year 2019, no severe laws violation in this aspect was found to have posed significant impact on the Group.

## Anti-Corruption

The Group is committed to the highest possible standards of openness, honesty and accountability in all the affairs. The Group is determined to maintain a culture of honesty and opposition to fraud and corruption. Based on this commitment, the Group implements related policies and procedures including "Anti-Fraud and Whistle-Blowing Policy" and "Anti-Bribery and Anti-Corruption Code of Conduct". These policies and procedures outline the principles to which we are committed to preventing, reporting and managing fraud, corruption and bribery. These principles are well conveyed to our employees through daily communication, trainings and workshops. During the reporting period, 89% of our staff received trainings on anti-corruption. Our customers, suppliers and contractors are expected to follow the same policy when working with us.

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

In 2019, the detailed breakdown of the number of persons who received training for anti-corruption and the training hours per person for anti-corruption by employment category is as follows:

| Anti-corruption Training | Number of persons received training for anti-corruption | Training hours per person for anti-corruption |
|---|---|---|
| **By employment category** | | |
| — Board member | 4 | 1.5 |
| — Senior management | 10 | 3.0 |
| — Middle management | 26 | 3.5 |
| — General | 143 | 4.0 |

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

## Community

### Community Investment

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

The Group is willing to participate in activities organised by the community in order to enhance the communication among different stakeholders. During the reporting period, we continued to support many charitable events, including the donation of bags and accessories worth HK$8,000 for Hong Kong Young Women's Christian Association and HK$2,250 for Ulta Beauty Charitable Foundation.

pwc 羅兵咸永道

**To the Shareholders of Takbo Group Holdings Limited**
*(incorporated in the Cayman Islands with limited liability)*

## Opinion

### What we have audited

The consolidated financial statements of Takbo Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 125, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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## Key Audit Matters

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

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment assessment of trade receivables**<br><br>Refer to note 4 and note 19 to the consolidated financial statements<br><br>As at 31 December 2019, the Group had gross trade receivables of approximately HK$57.9 million (2018: HK$37.2 million) and provision for impairment of approximately HK$2.4 million (2018: HK$2.2 million).<br><br>In general, the credit terms granted by the Group to the customers ranged between 30 to 120 days (2018: 30 to 120 days). Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balance, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.<br><br>We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates. | Our procedures in relation to management's impairment assessment of the trade receivables as at 31 December 2019 included:<br><br>• Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating their effectiveness on a sample basis;<br><br>• Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts;<br><br>• Inquiring of management for the status of each of the material trade receivable past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and<br><br>• Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.<br><br>We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence. |

## Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong, 16 March 2020

# Consolidated Income Statement

For the Year ended 31 December 2019

| | Note | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Revenue | *5* | **266,415** | 258,782 |
| Cost of sales | *8* | **(167,565)** | (171,261) |
| Gross profit | | **98,850** | 87,521 |
| Other income | *6* | **2,564** | 617 |
| Other gains, net | *7* | **6,665** | 5,772 |
| Administrative expenses | *8* | **(40,558)** | (30,151) |
| Selling and distribution expenses | *8* | **(29,587)** | (25,369) |
| **Operating profit** | | **37,934** | 38,390 |
| Finance income | *11* | **1,445** | 619 |
| Finance costs | *11* | **(370)** | — |
| Finance income, net | *11* | **1,075** | 619 |
| **Profit before income tax** | | **39,009** | 39,009 |
| Income tax expense | *12* | **(5,956)** | (6,760) |
| **Profit for the year attributable to owners of the Company** | | **33,053** | 32,249 |
| Earnings per share (in HK cents) | *13* | **8.3** | 8.1 |

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

# Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2019

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Profit for the year | **33,053** | 32,249 |
| Other comprehensive loss: | | |
| *Item that may be reclassified to profit or loss* | | |
| Exchange differences on translation of foreign operation | **(2,547)** | (806) |
| Other comprehensive loss for the year | **(2,547)** | (806) |
| Total comprehensive income for the year | **30,506** | 31,443 |
| Total comprehensive income attributable to owners of the Company | **30,506** | 31,443 |

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

# Consolidated Balance Sheet

As at 31 December 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *15(a)* | **43,813** | 25,549 |
| Intangible asset | *16* | **356** | 356 |
| Right-of-use assets | *15(b)* | **17,400** | — |
| Prepayments | *20* | **4,142** | 9,059 |
| Deferred income tax assets | *26* | **1,086** | 1,249 |
| | | **66,797** | 36,213 |
| **Current assets** | | | |
| Inventories | *18* | **7,564** | 9,161 |
| Trade receivables | *19* | **55,465** | 35,004 |
| Prepayments, deposits and other receivables | *20* | **9,855** | 5,368 |
| Amount due from a related party | *30* | **332** | 332 |
| Cash and cash equivalents | *21* | **114,244** | 103,628 |
| | | **187,460** | 153,493 |
| **Total assets** | | **254,257** | 189,706 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *22* | **4,000** | 4,000 |
| Share premium | *22* | **56,188** | 56,188 |
| Other reserves | | **1,346** | 3,454 |
| Retained earnings | | **139,417** | 106,803 |
| **Total equity** | | **200,951** | 170,445 |

# Consolidated Balance Sheet (Continued)

As at 31 December 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Provision | *25* | **393** | 393 |
| Lease liabilities | *15(b)* | **13,255** | — |
| | | **13,648** | 393 |
| **Current liabilities** | | | |
| Trade payables | *24* | **15,525** | 9,081 |
| Lease liabilities | *15(b)* | **4,380** | — |
| Accruals, provisions and other payables | *25* | **12,059** | 7,882 |
| Amount due to a related party | *30* | **404** | 647 |
| Current income tax liabilities | | **7,290** | 1,258 |
| | | **39,658** | 18,868 |
| **Total liabilities** | | **53,306** | 19,261 |
| **Total equity and liabilities** | | **254,257** | 189,706 |

The consolidated financial statements on pages 65 to 125 were approved by the Board of Directors on 16 March 2020 and were signed on its behalf.

| | |
|---|---|
| **Or Naam** | **Chan Hoi Yan, Polly** |
| *Director* | *Director* |

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

# Consolidated Statement of Changes in Equity

For the Year ended 31 December 2019

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Capital and other reserves** *(Note 23(a))* | **Statutory reserve** *(Note 23(b))* | **Exchange reserve** | **Retained earnings** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Balances at 31 December 2017 and 1 January 2018** | 4,000 | 56,188 | 46 | 544 | 3,128 | 75,096 | 139,002 |
| Profit for the year | — | — | — | — | — | 32,249 | 32,249 |
| Other comprehensive loss | — | — | — | — | (806) | — | (806) |
| **Total comprehensive income for the year** | — | — | — | — | (806) | 32,249 | 31,443 |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Transfer to reserve | — | — | — | 542 | — | (542) | — |
| | — | — | — | 542 | — | (542) | — |
| **Balances at 31 December 2018 and 1 January 2019** | 4,000 | 56,188 | 46 | 1,086 | 2,322 | 106,803 | 170,445 |
| Profit for the year | — | — | — | — | — | 33,053 | 33,053 |
| Other comprehensive loss | — | — | — | — | (2,547) | — | (2,547) |
| **Total comprehensive income for the year** | — | — | — | — | (2,547) | 33,053 | 30,506 |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Transfer to reserve | — | — | — | 439 | — | (439) | — |
| | — | — | — | 439 | — | (439) | — |
| **Balances at 31 December 2019** | 4,000 | 56,188 | 46 | 1,525 | (225) | 139,417 | 200,951 |

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

# Consolidated Statement of Cash Flows

For the Year ended 31 December 2019

| | Note | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *27* | **30,360** | 33,643 |
| Income tax refund/(paid) | | **253** | (7,551) |
| Net cash generated from operating activities | | **30,613** | 26,092 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(16,365)** | (19,300) |
| Purchase of intangible asset | | **(130)** | — |
| Interest received | | **1,445** | 619 |
| Proceeds from disposal of property, plant and equipment | | **10** | — |
| Net cash used in from investing activities | | **(15,040)** | (18,681) |
| **Cash flows from financing activities** | | | |
| Principle element of lease payments | | **(3,983)** | — |
| Interest element of lease payments | | **(370)** | |
| Net cash used in financing activities | | **(4,353)** | — |
| **Net increase in cash and cash equivalents** | | **11,220** | 7,411 |
| Cash and cash equivalents at the beginning of the financial year | | **103,628** | 96,412 |
| Effect of exchange rate changes on cash and cash equivalents | | **(604)** | (195) |
| Cash and cash equivalents at end of year | *21* | **114,244** | 103,628 |

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

## 1 General Information

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

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

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

The Company became listed on the GEM of The Stock Exchange of Hong Kong Limited on 27 October 2017.

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

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

## 2 Summary of Significant Accounting Policies

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

### 2.1 Basis of preparation

#### (i) Compliance with HKFRSs and HKCO

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

#### (ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis.

## 2 Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

| | |
|---|---|
| HKAS 19 | Plan Amendment, Curtailment or Settlement (amendments) |
| HKAS 28 | Long-term Interests in Associates and Joint Ventures (amendments) |
| HKFRS 9 | Prepayment Features with Negative Compensation (amendments) |
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Annual Improvements Project | Annual Improvements 2015–2017 Cycle (amendments) |

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

| | | |
|---|---|---|
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKFRS 17 | Insurance Contract | 1 January 2021 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| HKFRS 3 | Definition of a Business (amendments) | On or after 1 January 2020 |
| HKAS 1 and HKAS 8 | Definition of Material (amendments) | On or after 1 January 2020 |

# 2 Summary of Significant Accounting Policies (Continued)

## 2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 *Leases* on the Group's consolidated financial statements.

As indicated in note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.24.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.1%.

### (i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019, and

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

## 2 Summary of Significant Accounting Policies (Continued)

### 2.2 Changes in accounting policies (Continued)

#### (ii) Measurement of lease liabilities

| | 2019<br>HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | **24,741** |
| Discounted using lessee's incremental borrowing rate of at the date of initial application | **21,801** |
| Less: low-value leases not recognised as a liability | **(183)** |
| **Lease liability recognised as at 1 January 2019** | **21,618** |
| Of which are: | |
| Current lease liabilities | **6,387** |
| Non-current lease liabilities | **15,231** |
| | **21,618** |

#### (iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liabilities as at 1 January 2019.

#### (iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increase by HK$21,618,000

- Lease liabilities — increase by HK$21,618,000

There was no material net impact on retained earnings on 1 January 2019.

# 2 Summary of Significant Accounting Policies (Continued)

## 2.3 Principles of consolidation

### Subsidiaries

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

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

## 2.4 Separate financial statements

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

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

## 2.5 Segment reporting

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

The board of Takbo Group Holdings Limited has appointed an executive director as being the chief operating decision maker, which assesses the financial performance and position of the Group, and makes strategic decisions.

## 2 Summary of Significant Accounting Policies (Continued)

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

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

#### (c) Group companies

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

# 2 Summary of Significant Accounting Policies (Continued)

## 2.6 Foreign currency translation (Continued)

### (c) Group companies (Continued)

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

## 2.7 Property, plant and equipment

### 2.7.1 Construction-in-progress

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

### 2.7.2 Other property, plant and equipment

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

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

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

| | |
|---|---|
| Leasehold improvements | 20% |
| Plant and machinery | 10% to 20% |
| Furniture and equipment | 10% to 20% |
| Motor vehicles | 10% to 25% |

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

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

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.8 Intangible asset

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

### 2.9 Impairment of non-financial assets

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

### 2.10 Investments and other financial assets

#### (a) Classification

The Group classifies its financial assets in the following measurement categories:

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

— those to be measured at amortised cost.

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

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

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

#### (b) Recognition and derecognition

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.10 Investments and other financial assets (Continued)

#### (c) Measurement

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

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

*Debt instruments*

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

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

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

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.10 Investments and other financial assets (Continued)

(d) Impairment

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

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

### 2.11 Offsetting financial instruments

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

### 2.12 Inventories

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

### 2.13 Trade and other receivables

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

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.14 Cash and cash equivalents

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

### 2.15 Share capital

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

### 2.16 Trade and other payables

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

### 2.17 Current and deferred income tax

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

(a) Current income tax

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

## 2 Summary of Significant Accounting Policies (Continued)

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

#### (b) Deferred income tax

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

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

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

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

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

### 2.18 Employee benefits

#### (a) Short-term obligations

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.18 Employee benefits (Continued)

#### (b) Pension obligations

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

#### (c) Long service payments

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

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

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

#### (d) Bonus plans

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.19 Provisions

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

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

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

### 2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

## 2 Summary of Significant Accounting Policies (Continued)

### 2.20 Revenue recognition (Continued)

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service. Specific criteria where revenue is recognised are described below.

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

#### (a) Sale of beauty products and bags

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

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

#### (b) Sample income

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.21 Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### (ii) Diluted earnings per share

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

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

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

### 2.22 Dividend distribution

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

### 2.23 Interest income

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

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

### 2.24 Leases

As explained in note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2.2.

## 2 Summary of Significant Accounting Policies (Continued)

### 2.24 Leases (Continued)

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

## 2 Summary of Significant Accounting Policies (Continued)

### 2.24 Leases (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

## 2 Summary of Significant Accounting Policies (Continued)

### 2.25 Government grants

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received. There are no conditions attached to the grant and an income is credited to income statement upon receipt. Note 6 provides further information on how the Group accounts for government grants.

## 3 Financial Risk Management

### 3.1 Financial risk factors

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

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

#### (a) Foreign exchange risk

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

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

If RMB had strengthened/weakened by 5% with all other variables held constant as at the end of the year, the post-tax profit would have been approximately HK$41,000 lower/higher (2018: HK$13,000 higher/lower), mainly as a result of foreign exchange losses (2018: foreign exchange gains) on revaluation of RMB denominated cash and cash equivalents, trade and other receivables, trade and other payables, amounts due to related parties.

## 3 Financial Risk Management (Continued)

### 3.1 Financial risk factors (Continued)

#### (a) Foreign exchange risk (Continued)

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in HK$, was as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Assets** | | |
| US$ | **135,856** | 100,012 |
| RMB | **383** | 1,890 |
| Others | **33** | 55 |
| | **136,272** | 101,957 |
| **Liabilities** | | |
| US$ | **4,171** | 1,388 |
| RMB | **1,372** | 1,582 |
| | **5,543** | 2,970 |

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

The Group's cash flow interest rate risk arises from cash at bank and interest-bearing bank deposits.

If the interest rate on cash at bank and interest-bearing bank deposits had been 100 basis points higher/lower than the prevailing interest rate, with all other variables held constant as at the end of the year, post-tax profit would have been approximately HK$1,104,000 (2018: HK$946,000) higher/lower.

#### (c) Credit risk

The credit risk of the Group mainly arises from bank balances and deposits and trade receivables, deposit and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019.

## 3 Financial Risk Management (Continued)

### 3.1 Financial risk factors (Continued)

#### (c) Credit risk (Continued)

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

As at 31 December 2019, trade receivables that are individually significant have been separately assessed for impairment. The Company makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience. Since there has not been any history of default payments by existing customers, so management considers that the expected credit loss is close to zero, and no provision for impaired receivables has been made as at 31 December 2019.

Majority of the Group's revenue is received from individual customers in relation to beauty products and bags sold and are transacted in cash or credit. The Group's trade receivables arise from sales of beauty products and bags to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 88.0% and 42.3% (2018: 86.9% and 41.2%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in note 19. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The directors consider the Group's credit risk of these receivables to be low except for the impaired trade receivable disclosed in note 19.

The credit quality of the amounts due from related parties and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2019.

## 3 Financial Risk Management (Continued)

### 3.1 Financial risk factors (Continued)

#### (c) Credit risk (Continued)

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

| At 31 December 2019 | Lifetime expected credit loss rate | Gross carrying amount | Lifetime expected credit loss | Net carrying amount |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| **Overseas customers** | | | | |
| Provision on collective basis | **0%** | **54,846** | **—** | **54,846** |
| **Mainland China customers** | | | | |
| Provision on individual basis | **100%** | **2,423** | **2,423** | **—** |
| Provision on collective basis | **0%** | **619** | **—** | **619** |
| | | **57,888** | **2,423** | **55,465** |
| **At 31 December 2018** | | | | |
| **Overseas customers** | | | | |
| Provision on collective basis | 0% | 34,539 | — | 34,539 |
| **Mainland China customers** | | | | |
| Provision on individual basis | 100% | 2,184 | 2,184 | — |
| Provision on collective basis | 0% | 465 | — | 465 |
| | | 37,188 | 2,184 | 35,004 |

#### (d) Liquidity risk

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

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

# 3 Financial Risk Management (Continued)

## 3.1 Financial risk factors (Continued)

### (d) Liquidity risk (Continued)

| Contractual maturities of financial liabilities | On demand | Within 1 year | Between 1 to 2 years | Between 2 to 5 years | Total contractual cash flow | Carrying amount |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **As at 31 December 2019** | | | | | | |
| Trade payables | **—** | **15,525** | **—** | **—** | **15,525** | **15,525** |
| Accruals and other payables | **—** | **4,834** | **—** | **—** | **4,834** | **4,834** |
| Amount due to a related party | **404** | **—** | **—** | **—** | **404** | **404** |
| Lease liabilities | **—** | **4,694** | **4,183** | **10,041** | **18,918** | **17,635** |
| | **404** | **25,053** | **4,183** | **10,041** | **39,681** | **38,398** |
| **As at 31 December 2018** | | | | | | |
| Trade payables | — | 9,081 | — | — | 9,081 | 9,081 |
| Accruals and other payables | — | 1,910 | — | — | 1,910 | 1,910 |
| Amount due to a related party | — | 647 | — | — | 647 | 647 |
| | | | | — | | |
| | — | 11,638 | — | — | 11,638 | 11,638 |

## 3.2 Capital risk management

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

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

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

## 3 Financial Risk Management (Continued)

### 3.2 Capital risk management (Continued)

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total borrowings | **—** | — |
| Less: cash and cash equivalents *(Note 21)* | **(114,244)** | (103,628) |
| Net cash | **(114,244)** | (103,628) |
| Total equity | **200,951** | 170,445 |
| **Gearing ratio** | **N/A** | N/A |

### 3.3 Fair value estimation

#### (i) Fair value hierarchy

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

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year ended 31 December 2018. For transfers in and out of level 3 measurements see (ii) below.

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

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

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

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

## 3 Financial Risk Management (Continued)

### 3.3 Fair value estimation (Continued)

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

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Opening balance | — | 1,320 |
| Acquisitions | — | 4,800 |
| Disposals | — | (6,120) |
| Gains/(losses) recognised in other comprehensive income | — | — |
| Closing balance | — | — |

The above instruments included in level 3 represented non-guaranteed interest bearing bank deposit issued by financial institution in the Mainland China which was classified as financial assets at fair value through profit of loss.

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

There is no impact on post-tax profit (2018: same), if the interest rate on interest-bearing bank deposits had been 100 basis points higher/lower than the prevailing interest rate, with all other variables held constant.

## 4 Critical Accounting Estimates and Judgements

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

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

### (a) Impairment of receivables

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

### (b) Current and deferred taxes

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

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

## 5 Revenue and Segment Information

### (a) Revenue

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Revenue** | | |
| Sales of beauty products | **209,750** | 193,375 |
| Sales of beauty bags | **56,665** | 65,407 |
| | **266,415** | 258,782 |

### (b) Segment information

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

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

## 5 Revenue and Segment Information (Continued)

### (b) Segment information (Continued)

The segment information provided to the chief operating decision-maker are as follows:

| | Design, development, manufacture and sale of beauty products HK$'000 | Design, development and sale of beauty bags HK$'000 | Total HK$'000 |
|---|---|---|---|
| **For the year ended 31 December 2019** | | | |
| Segment revenue from external customers | **209,750** | **56,665** | **266,415** |
| Timing of revenue recognition: | | | |
| At a point in time | **209,750** | **56,665** | **266,415** |
| Cost of sales | **(126,117)** | **(41,448)** | **(167,565)** |
| Gross profit | **83,633** | **15,217** | **98,850** |
| Other income | | | **2,564** |
| Other gains, net | | | **6,665** |
| Administrative expenses | | | **(40,558)** |
| Selling and distribution expenses | | | **(29,587)** |
| Finance income | | | **1,075** |
| Profit before income tax | | | **39,009** |
| Income tax expense | | | **(5,956)** |
| Profit for the year | | | **33,053** |
| **For the year ended 31 December 2018** | | | |
| Segment revenue from external customers | 193,375 | 65,407 | 258,782 |
| Timing of revenue recognition: | | | |
| At a point in time | 193,375 | 65,407 | 258,782 |
| Cost of sales | (125,229) | (46,032) | (171,261) |
| Gross profit | 68,146 | 19,375 | 87,521 |
| Other income | | | 617 |
| Other losses, net | | | 5,772 |
| Administrative expenses | | | (30,151) |
| Selling and distribution expenses | | | (25,369) |
| Finance income | | | 619 |
| Profit before income tax | | | 39,009 |
| Income tax expense | | | (6,760) |
| Profit for the year | | | 32,249 |

## 5 Revenue and Segment Information (Continued)

### (b) Segment information (Continued)

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

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Customer A (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags) | **39,548** | 48,233 |
| Customer B (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags) | **55,289** | 40,411 |
| Customer C (Design, development, manufacture and sale of beauty products) | **56,666** | 75,597 |
| Customer D (Design, development and sale of beauty bags) | **31,194** | 44,226 |

### (c) Group information

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

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| United States of America ("USA") | **246,875** | 247,165 |
| Mainland China | **8,635** | 598 |
| Mexico | **7,415** | — |
| United Arab Emirates ("UAE") | **—** | 5,294 |
| United Kingdom | **2,633** | 2,877 |
| Other countries | **857** | 2,848 |
| | **266,415** | 258,782 |

## 5 Revenue and Segment Information (Continued)

### (d) Liability related to contracts with customers

As at 31 December 2019, contract liabilities included in accruals, provision and other payables amounting to HK$1,496,000 (2018: HK$1,443,000).

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

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | **1,443** | 490 |

## 6 Other Income

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Sample income | **1,034** | 617 |
| Government grant *(Note (a))* | **1,530** | — |
| | **2,564** | 617 |

*Note (a):* Government grant mainly represented a grant obtained from the government in Mainland China to subsidise to the operating costs of a subsidiary. There are no unfulfilled conditions attached to this grant. The Group did not benefit directly from any other forms of government assistance.

## 7 Other Gains, Net

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Exchange gains, net | **6,680** | 5,772 |
| Loss on disposal of property, plant and equipment | **(15)** | — |
| | **6,665** | 5,772 |

## 8 Expenses by Nature

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials and consumables used | **147,851** | 153,617 |
| Changes in inventories of finished goods and work in progress | **2,389** | (2,494) |
| Cost of inventories sold | **150,240** | 151,123 |
| Amortisation of intangible asset *(Note 16)* | **115** | 154 |
| Auditor's remuneration | | |
| — Audit services | **900** | 900 |
| — Non-audit services in connection with transfer of listing application | **530** | — |
| — Other non-audit services | **35** | 34 |
| Employee benefits expenses, excluding benefits and interests of directors *(Note 9)* | **13,317** | 10,305 |
| Directors' emoluments *(Note 10)* | **7,255** | 5,756 |
| Manpower service costs | **14,912** | 14,813 |
| Depreciation of property, plant and equipment *(Note 15(a))* | **2,719** | 1,102 |
| Depreciation of right-of-use assets *(Note 15(b))* | **3,431** | — |
| Inspection fees | **3,182** | 3,852 |
| Government rent, rates and management fee | **1,587** | 1,983 |
| Advertising and marketing expenses | **1,992** | 2,305 |
| Travelling expenses and entertainment expense | **3,212** | 2,632 |
| Freight, transportation and tariff | **20,735** | 13,692 |
| Utility expenses | **1,638** | 1,023 |
| Legal and professional fees | **2,440** | 2,597 |
| Expenses incurred in connection with transfer of listing application, excluding auditor's remuneration | **3,214** | — |
| Expense relating to leases of low-value assets *(Note 15(b))* | **183** | — |
| Provision/(reversal of provision) of impairment losses on trade receivables | **332** | (775) |
| Others | **5,741** | 15,285 |
| Total cost of sales, selling and distribution expenses and administrative expenses | **237,710** | 226,781 |

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, bonuses and allowances | **11,960** | 8,963 |
| Pension costs-defined contribution plan *(Note)* | **409** | 688 |
| Other employee benefits | **948** | 654 |
| | **13,317** | 10,305 |

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

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

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

During the year, the aggregate amounts of the Group's net contributions to the aforementioned pension schemes for employees including benefits and interests of Directors were approximately HK$463,000 (2018: HK$742,000).

## 10 Benefits and Interests of Directors

### (a) Directors' emoluments

**For the year ended 31 December 2019**

| Name | Fee HK$'000 | Salaries HK$'000 | Other allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Defined contribution pension costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Or Naam, Chief Executive Officer | — | 1,235 | 1,488 | 500 | 18 | 3,241 |
| Ms. Chan | — | 1,105 | — | 500 | 18 | 1,623 |
| Mr. Or Huen | — | 1,153 | — | 500 | 18 | 1,671 |
| **Independent non-executive directors** | | | | | | |
| Mr. Tan Chong Huat | 240 | — | — | — | — | 240 |
| Mr. Sung Chi Keung | 240 | — | — | — | — | 240 |
| Mr. Wong, Irving Holmes Weng Hoong | 240 | — | — | — | — | 240 |
| | 720 | 3,493 | 1,488 | 1,500 | 54 | 7,255 |

**For the year ended 31 December 2018**

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

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2018: same).

## 10 Benefits and Interests of Directors (Continued)

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

Save as disclosed in note 10(a), the directors did not receive any other retirement benefits or termination benefits during the year (2018: nil).

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

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2018: nil).

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

As at the end of the year, there are no loans, quasi-loans and other dealing arrangements in favour of directors, their controlled bodies corporate and connected entities (2018: nil).

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

Save as disclosed in note 30, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: nil).

### (f) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for the year include 3 (2018: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2018: 2) individuals during the year are as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Salaries, other allowances and benefits | **1,422** | 1,399 |
| Bonuses | **—** | — |
| Pension cost — defined contribution plan | **35** | 35 |
| | **1,457** | 1,434 |

## 10 Benefits and Interests of Directors (Continued)

### (f) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2019** | 2018 |
| Emolument bands | | |
| Nil to HK$500,000 | **1** | 1 |
| HK$500,001 to HK$1,000,000 | **—** | 1 |
| HK$1,000,001 to HK$2,000,000 | **1** | — |

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

## 11 Finance Income, net

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Finance income** | | |
| Bank interest income | **1,445** | 619 |
| **Finance cost** | | |
| Finance cost related to leases *(Note 15(b))* | **(370)** | — |
| | **(370)** | — |
| **Finance income, net** | **1,075** | 619 |

## 12 Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. Corporate income tax on profits from subsidiaries operating in Mainland China have been calculated at 25% (2018: 25%) in accordance with the relevant Mainland China tax laws and regulations, except that Cosbe Laboratory Inc. was granted the High and New Technology Enterprise status in December 2019, being valid for 3 years, and therefore it is entitled to a preferential tax rate of 15%. No overseas profits tax has been calculated for subsidiaries of the Group that are incorporated in the BVI or the Cayman Islands as they have no assessable income (2018: nil).

Income tax expense charged to the consolidated income statement represents:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Current tax | **5,535** | 6,282 |
| Deferred income tax *(Note 26)* | **148** | 400 |
| Under provision in prior year | **273** | 78 |
| | **5,956** | 6,760 |

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

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Profit before income tax | **39,009** | 39,009 |
| Tax calculated at a tax rate of 16.5% (2018: 16.5%) | **6,436** | 6,436 |
| Effect of different taxation rates in another jurisdiction | **(12)** | 610 |
| Income not subject to tax | **(516)** | (202) |
| Expenses not deductible for tax purpose | **17** | 3 |
| Under provision in prior year | **273** | 78 |
| Tax credit in Mainland China | **(77)** | — |
| Tax concession under two-tiered profits tax rates regime in Hong Kong | **(165)** | (165) |
| Income tax expense | **5,956** | 6,760 |

For the tax assessment year ended 31 March 2019, Hong Kong profits tax is levied at progressive rate at 8.25% on the estimated assessable profits arising in or derived from Hong Kong for the year below HK$2,000,000, and thereafter at a fixed rate at 16.5% (2018: 16.5%).

## 13 Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year.

| | 2019 | 2018 |
|---|---|---|
| Profit attributable to owners of the Company (in HK$'000) | **33,053** | 32,249 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **400,000,000** | 400,000,000 |
| Basic earnings per share attributable to the ordinary equity holders of the Company (in HK cents) | **8.3** | 8.1 |

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

## 14 Subsidiaries

The Group's principal subsidiaries at the end of the year are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

| Name of entity | Place of incorporation and kind of legal entity | Date of incorporation | Principal activities | Issued and paid up capital | Attributable effective equity interest to the Company as at 31 December 2019 | 2018 |
|---|---|---|---|---|---|---|
| **Directly held** | | | | | | |
| Alpha Business Global Limited | British Virgin Islands, limited liability company | 10 January 2017 | Investment holding | US$1 | **100%** | 100% |
| **Indirectly held** | | | | | | |
| Full Colour Development Limited | British Virgin Islands, limited liability company | 4 January 2017 | Investment holding | US$1 | **100%** | 100% |
| Dawning Beauty Limited | British Virgin Islands, limited liability company | 30 August 2016 | Investment holding | US$1 | **100%** | 100% |
| Takbo Limited ("Takbo") | Hong Kong, limited liability company | 20 December 1994 | Design, development and sale of beauty products and beauty bags | HK$10,000 | **100%** | 100% |
| B&B (H.K) Limited ("B&B") | Hong Kong, limited liability company | 9 April 1999 | Investment holding | HK$2 | **100%** | 100% |
| Cosbe Laboratory Inc. (廣東一芙化妝品有限公司) | China, limited liability company *(Note)* | 28 June 2002 | Design, development, manufacture and sale of beauty products | RMB32,000,000 | **100%** | 100% |

*Note:* Cosbe Laboratory Inc. is a limited liability company established in Shantou, Mainland China for a term of 36 years up to 27 June 2038.

## 15 Property, Plant and Equipment, Right-of-Use Assets and Lease Liabilities

### (a) Property, Plant and Equipment

| | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| As at 1 January 2018 | | | | | | |
| Cost | 3,985 | 11,770 | 10,552 | 3,188 | 7,582 | 37,077 |
| Accumulated depreciation | (3,850) | (9,953) | (8,290) | (2,752) | — | (24,845) |
| Net book amount | 135 | 1,817 | 2,262 | 436 | 7,582 | 12,232 |
| Year ended 31 December 2018 | | | | | | |
| Opening net book amount | 135 | 1,817 | 2,262 | 436 | 7,582 | 12,232 |
| Exchange differences | — | (48) | (31) | (6) | (790) | (875) |
| Additions | 1,696 | 1,670 | 640 | 37 | 11,251 | 15,294 |
| Depreciation charge *(Note 8)* | (207) | (527) | (243) | (125) | — | (1,102) |
| Closing net book amount | 1,624 | 2,912 | 2,628 | 342 | 18,043 | 25,549 |
| As at 31 December 2018 | | | | | | |
| Cost | 5,681 | 13,218 | 11,114 | 3,214 | 18,043 | 51,270 |
| Accumulated depreciation | (4,057) | (10,306) | (8,486) | (2,872) | — | (25,721) |
| Net book amount | 1,624 | 2,912 | 2,628 | 342 | 18,043 | 25,549 |
| Year ended 31 December 2019 | | | | | | |
| Opening net book amount | **1,624** | **2,912** | **2,628** | **342** | **18,043** | **25,549** |
| Exchange differences | **(1,251)** | **(376)** | **(74)** | **9** | **(1,848)** | **(3,540)** |
| Additions | **2,839** | **6,548** | **571** | **120** | **14,470** | **24,548** |
| Disposal | **—** | **—** | **—** | **(25)** | **—** | **(25)** |
| Transfer | **30,665** | **—** | **—** | **—** | **(30,665)** | **—** |
| Depreciation charge *(Note 8)* | **(1,707)** | **(615)** | **(301)** | **(96)** | **—** | **(2,719)** |
| Closing net book amount | **32,170** | **8,469** | **2,824** | **350** | **—** | **43,813** |
| As at 31 December 2019 | | | | | | |
| Cost | **37,885** | **18,927** | **11,488** | **3,291** | **—** | **71,591** |
| Accumulated depreciation | **(5,715)** | **(10,458)** | **(8,664)** | **(2,941)** | **—** | **(27,778)** |
| Net book amount | **32,170** | **8,469** | **2,824** | **350** | **—** | **43,813** |

During the year, depreciation expenses of approximately HK$1,672,000 (2018: HK$420,000) has been charged in "cost of sales" and approximately HK$1,047,000 (2018: HK$682,000) have been charged in "administrative expenses".

During the year, depreciation of right-of-use assets of approximately HK$787,000 (2018: rental expenses of approximate HK$1,818,000) has been capitalised on construction in progress.

## 15 Property, Plant and Equipment, Right-of-Use Assets and Lease Liabilities (Continued)

### (b) Right-of-use Assets and Lease Liabilities

This note provides information for leases where the Group is a lessee.

#### (i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

| | **31 December 2019 HK$'000** | 1 January 2019[1] HK$'000 |
|---|---|---|
| **Right-of-use assets** | | |
| Buildings | **17,400** | 22,491 |
| | **17,400** | 22,491 |
| **Lease liabilities** | | |
| Current | **4,380** | 4,082 |
| Non-current | **13,255** | 18,409 |
| | **17,635** | 22,491 |

*Note:*

(i) For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2.2.

There was no additions to the right-of-use assets, except for the adoption impact of HKFRS 16 disclosed in note 2.2 during the year.

## 15 Property, Plant and Equipment, Right-of-Use Assets and Lease Liabilities (Continued)

### (b) Right-of-use Assets and Lease Liabilities (Continued)

#### (ii) Amounts recognised in the consolidated income statement

The income statement shows the following amounts relating to leases:

| | *Notes* | **2019 HK$'000** |
|---|---|---|
| Depreciation charge of right-of-use assets — building | *8* | **3,431** |
| Amounts capitalised on construction in progress | *15(a)* | **787** |
| Total depreciation | | **4,218** |
| Interest expense (included in finance cost) | *11* | **370** |
| Expense relating to leases of low-value assets (included in administrative expenses) | *8* | **183** |

The cash outflow for lease liabilities in 2019 was HK$4,353,000. The lease payments not included in the measurement of lease liabilities was HK$183,000.

#### (iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, factory and residential premises. Rental contracts are typically made for fixed periods of 2 years to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the rental deposits in the leased assets that are held by the lessor. Leased assets were not be used as security for borrowing purposes.

(iv) There are no variable lease payments contained in the leases.

## 16 Intangible Asset

| | Computer software HK$'000 |
|---|---|
| As at 1 January 2018 | |
| Cost | 768 |
| Accumulated amortisation | (252) |
| Net book amount | 516 |
| Year ended 31 December 2018 | |
| Opening net book amount | 516 |
| Exchange differences | (6) |
| Additions | — |
| Amortisation *(Note 8)* | (154) |
| Closing net book amount | 356 |
| As at 31 December 2018 | |
| Cost | 755 |
| Accumulated amortisation | (399) |
| Net book amount | 356 |
| Year ended 31 December 2019 | |
| Opening net book amount | 356 |
| Exchange differences | (15) |
| Additions | 130 |
| Amortisation *(Note 8)* | (115) |
| Closing net book amount | 356 |
| As at 31 December 2019 | |
| Cost | 848 |
| Accumulated amortisation | (492) |
| Net book amount | 356 |

During the year, amortisation expenses of the Group's computer software of approximately HK$115,000 (2018: HK$154,000) have been charged to "administrative expenses".

## 17 Financial Instruments by Category

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| *Financial assets at amortised cost* | | |
| Trade receivables | **55,465** | 35,004 |
| Deposits and other receivables | **4,772** | 1,057 |
| Amount due from a related party | **332** | 332 |
| Cash and cash equivalents | **114,244** | 103,628 |
| | **174,813** | 140,021 |
| | **174,813** | 140,021 |
| **Financial liabilities** | | |
| *Other financial liabilities at amortised cost* | | |
| Trade payables | **15,525** | 9,081 |
| Accruals and other payables | **4,834** | 1,910 |
| Amount due to a related party | **404** | 647 |
| Lease liabilities | **17,635** | — |
| | **38,398** | 11,638 |

## 18 Inventories

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials | **945** | 369 |
| Work in progress | **1,074** | 710 |
| Finished goods | **5,545** | 8,082 |
| | **7,564** | 9,161 |

The cost of inventories included in cost of sales during the year amounted to approximately HK$150,240,000 (2018: HK$151,123,000).

## 19 Trade Receivables

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade receivables | **57,888** | 37,188 |
| Less: loss allowance | **(2,423)** | (2,184) |
| | **55,465** | 35,004 |

Trade receivables represent income receivable from customers. The credit terms granted by the Group generally ranged between 30 to 120 days (2018: 30 to 120 days).

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 1 to 30 days | **21,555** | 3,573 |
| 31 to 60 days | **2,601** | 5,904 |
| 61 to 90 days | **11,081** | 1,737 |
| 91 to 120 days | **13,225** | 12,267 |
| 121 to 150 days | **5,093** | 10,263 |
| 151 to 180 days | **316** | 1,086 |
| Over 181 days | **1,594** | 174 |
| | **55,465** | 35,004 |

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

As at 31 December 2019, trade receivables that are individually significant have been separately assessed for impairment. The Company makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience. Since there has not been any history of default payments by existing customers, so management considers that the expected credit loss is close to zero, and no provision for impaired receivables has been made as at 31 December 2019.

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

## 19 Trade Receivables (Continued)

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At 1 January | **2,184** | 2,996 |
| Provision/(reversal of provision) for impairment losses recognised during the year | **332** | (775) |
| Exchange differences | **(93)** | (37) |
| At 31 December | **2,423** | 2,184 |

The maximum exposure to credit risk is the carrying amounts of trade receivables and the Group does not hold any collateral as security. The carrying amounts of trade receivables approximate their fair values as at the end of the year and are denominated in the following currencies:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| US$ | **54,847** | 34,539 |
| RMB | **618** | 465 |
| | **55,465** | 35,004 |

## 20 Prepayments, Deposits and Other Receivables

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Rental, utilities and other deposits | **94** | 94 |
| Prepayments | **7,377** | 10,791 |
| Other receivables | **6,526** | 3,542 |
| | **13,997** | 14,427 |
| Less non-current portion: | | |
| Prepayments | **(4,142)** | (9,059) |
| | **9,855** | 5,368 |

## 20 Prepayments, Deposits and Other Receivables (Continued)

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

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| HK$ | **103** | 281 |
| US$ | **88** | 939 |
| RMB | **13,806** | 13,207 |
| | **13,997** | 14,427 |

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

## 21 Cash and Cash Equivalents

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Cash on hand | **12** | 36 |
| Cash at bank | **25,074** | 27,712 |
| Short-term bank deposits | **89,158** | 75,880 |
| Cash and cash equivalents | **114,244** | 103,628 |

Cash and cash equivalents are denominated in the following currencies:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| HK$ | **24,633** | 25,505 |
| US$ | **80,566** | 65,474 |
| RMB | **9,014** | 12,594 |
| Others | **31** | 55 |
| | **114,244** | 103,628 |

## 22 Share Capital and Share Premium

| Authorised share capital | Number of Ordinary share | Nominal value of ordinary share HK$'000 |
|---|---|---|
| As at 1 January 2018, 31 December 2018 and 31 December 2019 | 10,000,000,000 | 100,000 |

| Issued and fully paid | Number of Ordinary share | Nominal value of ordinary share HK$'000 | Share premium HK$'000 |
|---|---|---|---|
| As at 1 January 2018, 31 December 2018 and 31 December 2019 | 400,000,000 | 4,000 | 56,188 |

## 23 Other Reserves

### (a) Capital and other reserves

Capital and other reserves of the Group include the excess of the aggregate net assets values of the subsidiaries acquired by the Company over the nominal consideration payable by the Group for the acquisition of subsidiaries pursuant to the reorganisation in relation to the Listing of the Company.

### (b) Statutory reserve

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

## 24 Trade Payables

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

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| 1 to 30 days | **5,751** | 4,256 |
| 31 to 60 days | **4,413** | 2,452 |
| 61 to 90 days | **737** | 636 |
| 91 to 120 days | **2,684** | 254 |
| 121 to 180 days | **1,939** | 142 |
| 181 to 365 days | **1** | 890 |
| Over 365 days | **—** | 451 |
| | **15,525** | 9,081 |

## 24 Trade Payables (Continued)

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| US$ | — | 732 |
| HK$ | 34 | 3 |
| RMB | 15,491 | 8,346 |
| | 15,525 | 9,081 |

## 25 Accruals, Provisions and Other Payables

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Non-current portion** | | |
| Provision for long service payments | 393 | 393 |
| **Current portion** | | |
| Contract liabilities | 1,496 | 1,443 |
| Accrued expenses | 5,727 | 4,447 |
| Accrued listing expenses | — | 78 |
| Other payables | 4,836 | 1,914 |
| | 12,059 | 7,882 |

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| HK$ | 3,601 | 1,689 |
| US$ | 1,156 | 1,443 |
| RMB | 7,695 | 5,143 |
| | 12,452 | 8,275 |

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

## 26 Deferred Income Tax

The analysis of deferred income tax assets is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Deferred income tax assets | | |
| — to be recovered after more than 12 months | **1,086** | 1,249 |

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

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| At 1 January | **1,249** | 1,658 |
| Recognised in the consolidated income statement *(Note 12)* | **(148)** | (400) |
| Exchange differences | **(15)** | (9) |
| Deferred income tax assets | **1,086** | 1,249 |

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

| | Decelerated tax depreciation HK$'000 | Provisions HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 January 2018 | 309 | 1,349 | 1,658 |
| Charged to the consolidated income statement | (257) | (143) | (400) |
| Exchange differences | — | (9) | (9) |
| As at 31 December 2018 and 1 January 2019 | 52 | 1,197 | 1,249 |
| Charged to the consolidated income statement | (19) | (129) | (148) |
| Exchange differences | — | (15) | (15) |
| As at 31 December 2019 | 33 | 1,053 | 1,086 |

As at the end of the year, deferred income tax liabilities of approximately HK$1,386,000 (2018: HK$1,000,000) have not been recognised for the withholding tax that would be payable on the unremitted retained earnings of the Group's subsidiaries in the Mainland China amounting to approximately HK$13,861,000 (2018: HK$10,002,000).

## 27 Cash Generated from Operations

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Profit before income tax | **39,009** | 39,009 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **2,719** | 1,102 |
| Depreciation of right-of-use assets | **3,431** | — |
| Amortisation of intangible asset | **115** | 154 |
| Provision/(reversal of provision) for impairment losses of receivables | **332** | (775) |
| Loss on disposal of property, plant and equipment | **15** | — |
| Finance income | **(1,445)** | (619) |
| Finance costs related to leases | **370** | — |
| Foreign exchange difference on operating activities | **(1,308)** | 596 |
| Operating profit before working capital changes | **43,238** | 39,467 |
| Changes in working capital: | | |
| Inventories | **1,733** | (320) |
| Trade receivables | **(20,802)** | (10,213) |
| Prepayments, deposits and other receivables | **(3,876)** | (883) |
| Related companies balances | **(248)** | 155 |
| Financial assets at fair value through profit or loss | **—** | 1,320 |
| Trade payables | **6,253** | 1,385 |
| Accruals, provisions and other payables | **4,062** | 2,732 |
| Cash generated from operations | **30,360** | 33,643 |

Reconciliation of liabilities arising from financing activities:

| | 1 January HK$'000 | Non-cash changes Addition/(deduction) *(Note 2.2)* HK$'000 | Non-cash changes Finance costs HK$'000 | Cash flows HK$'000 | 31 December HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | |
| Lease liabilities | — | 21,618 | 370 | (4,353) | 17,635 |

## 28 Contingencies

As at the end of the year, the Group did not have any significant contingent liabilities (2018: same).

## 29 Commitments

### (a) Capital commitments

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

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Property, plant and equipment | **6,748** | 8,563 |

### (b) Non-cancellable operating leases

As a lessee

As at the end of the year, the Group leases office, factory and residential premises under non-cancellable operating lease agreements with related companies. The leases terms are between 2 to 10 years (2018: 2 to 10 years) and are renewable at the end of the lease period at market rate.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for low-value leases, see note 2.2 and note 15(b) for further information.

The future aggregate minimum lease payments under non-cancellable operating leases not recognised in the financial statements are as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| No later than one year | **—** | 4,589 |
| Later than one year and no later than five years | **—** | 11,290 |
| Later than five years | **—** | 8,862 |
| | **—** | 24,741 |

## 30 Related Party Transactions

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

## 30 Related Party Transactions (Continued)

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

| Name of related party | Relationship with the Group |
|---|---|
| Mr. Or Tak Ming | Spouse of Ms. Chu |
| Mr. Or Huen | Brother of Mr. Or Naam and son of Mr. Or Tak Ming and Ms. Chu |
| Ms. Li Chen | Spouse of Mr. Or Huen |
| Chapmont Limited | Controlled by Ms. Chu and Mr. Or Tak Ming |
| Sky Choice Development Limited | Controlled by Mr. Or Naam and Ms. Chu |
| Smart Path Development Limited | Controlled by Mr. Or Naam and Ms. Chan |
| Max Choice Limited | Controlled by Ms. Chan |
| Tak Bo Hong | Controlled by Ms. Chu and Mr. Or Tak Ming |
| Tak Bo Hong Company Limited | Controlled by Mr. Or Naam and Ms. Chu |
| Shantou Baoma Processing Complex Company Limited | Controlled by Ms. Chu and Mr. Or Tak Ming, spouse of Ms. Chu Siu Fong |

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

### (a) Transactions with related parties

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Continuing transactions: | | |
| Shantou Baoma Processing Complex Company Limited | | |
| — Purchases | **9,628** | 10,785 |
| — Utility expenses | **1,013** | 817 |
| — Rental expenses | **2,167** | 2,043 |
| Sky Choice Development Limited | | |
| — Rental expenses | **1,078** | 1,062 |
| Smart Path Development Limited | | |
| — Rental expenses | **1,200** | 1,200 |
| Ms. Li Chen | | |
| — Employee benefits expenses | **133** | — |

All of the above transactions with related parties were conducted based on the terms mutually agreed between the relevant parties.

## 30 Related Party Transactions (Continued)

### (b) Key management compensation

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

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and bonuses | **4,993** | 3,495 |
| Other allowances and benefits in kind | **1,488** | 1,487 |
| Defined contribution pension costs | **54** | 54 |
| | **6,535** | 5,036 |

### (c) Amount due from/(to) a related party

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Amount due from a related party | | |
| — Shantou Baoma Processing Complex Company Limited *(Note i)* | **332** | 332 |
| Amount due to a related party | | |
| — Shantou Baoma Processing Complex Company Limited *(Note i)* | **(404)** | (647) |
| | **(72)** | (315) |

As at 31 December 2018 and 2019, there were no impairment for the amount due from a related party, as the amounts have not past due and they have no history of default in payment.

*Note:*

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

## 30 Related Party Transactions (Continued)

### (c) Amount due from/(to) a related party (Continued)

The carrying amount of amount due from/(to) a related party approximated its fair value. The balances were denominated in the following currency:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| RMB | **332** | 332 |
| US$ | **(404)** | (647) |
| | **(72)** | (315) |

## 31 Balance Sheet and Reserve Movement of the Company

### Balance sheet of the Company

| | *Note* | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in a subsidiary | | **84,836** | 84,836 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **23,680** | 19,110 |
| Cash and cash equivalents | | **19,300** | 23,443 |
| | | **42,980** | 42,553 |
| **Total assets** | | **127,816** | 127,389 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *22* | **4,000** | 4,000 |
| Share premium | *(a)* | **141,034** | 141,034 |
| Accumulated losses | *(a)* | **(17,223)** | (17,726) |
| **Total equity** | | **127,811** | 127,308 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | **5** | 3 |
| Accruals | | **—** | 78 |
| **Total liabilities** | | **5** | 81 |
| **Total equity and liabilities** | | **127,816** | 127,389 |

The balance sheet of the Company was approved by the Board of Directors on 16 March 2020 and was signed on its behalf.

| | |
|---|---|
| **Or Naam** | **Chan Hoi Yan, Polly** |
| *Director* | *Director* |

## 31 Balance Sheet and Reserve Movement of the Company (Continued)

### (a) Reserve movement of the Company

| | Share premium HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 1 January 2018** | 141,034 | (18,003) | 123,031 |
| Profit for the year | — | 277 | 277 |
| **As at 31 December 2018** | 141,034 | (17,726) | 123,308 |
| Profit for the year | — | 503 | 503 |
| **As at 31 December 2019** | 141,034 | (17,223) | 123,811 |

## 32 Event Occurring after the Reporting Period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the Mainland China. If the situation continues for an extended period, the Group's business operations and financial results may be affected for the year ending 31 December 2020, possibly due to unstable supply chain for purchase of raw materials for production and expected decline in sales in both Mainland China and overseas countries whose impact would be partly offset by the expected reduction in sales related costs. Management is yet to be able to estimate the overall impact to the financial performance and position of the Group. Nonetheless, the Group will pay close attention to the development of the COVID-19 outbreak and continuously manage relevant resources and adjust its purchase and production activities in a timely manner to mitigate the potential adverse impact.

# Five Years Financial Summary

| RESULTS | 2019<br>HK$'000 | 2018<br>HK$'000 | 2017<br>HK$'000 | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|---|---|
| Revenue | **266,415** | 258,782 | 179,369 | 165,098 | 170,807 |
| Profit before income tax | **39,009** | 39,009 | 9,702 | 17,130 | 15,812 |
| Income tax expenses | **(5,956)** | (6,760) | (4,232) | (3,470) | (2,929) |
| Profit attributable to the owners of the Company for the year | **33,053** | 32,249 | 5,470 | 13,660 | 12,883 |
| Total comprehensive income attributable to the owners of the Company for the year | **30,506** | 31,443 | 6,455 | 12,361 | 12,883 |
| Total assets | **254,257** | 189,706 | 154,341 | 147,959 | 127,512 |
| Total liabilities | **53,306** | 19,261 | 15,339 | 66,660 | 58,574 |
| Net assets | **200,951** | 170,445 | 139,002 | 81,299 | 68,938 |
| Equity attributable to owners of the Company | **200,951** | 170,445 | 139,002 | 81,299 | 68,938 |