Evergreen Products Group Limited
訓修實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1962

Annual Report

2019

CONTENTS

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chang Yoe Chong Felix
(Chairman and Chief Executive Officer)
Mr. Kwok Yau Lung Anthony
(Chief Operating Officer)
Mr. Chan Kwok Keung
Mr. Hui Wing Ki
Ms. Jia Ziying
Mr. Li Yanbo

NON-EXECUTIVE DIRECTORS

Mr. Chan Lau Yui Kevin
Mr. Chan Hoi Sing Harold

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Ip Keung Kenneth
Mr. Sin Hendrick
Dr. Yung Bruce Pak Keung
Mr. Szeto Yuk Ting
Ir. Cheung Siu Wa
(appointed on 18 February 2019)

COMPANY SECRETARY

Ms. Leung Pui Yee *(HKICPA, FCCA)*

AUTHORIZED REPRESENTATIVES

Mr. Kwok Yau Lung Anthony
Ms. Leung Pui Yee *(HKICPA, FCCA)*

AUDIT COMMITTEE

Mr. Sin Hendrick *(Chairman)*
Mr. Lau Ip Keung Kenneth
Dr. Yung Bruce Pak Keung
Mr. Szeto Yuk Ting

REMUNERATION COMMITTEE

Mr. Szeto Yuk Ting *(Chairman)*
Mr. Chang Yoe Chong Felix
Mr. Lau Ip Keung Kenneth
Mr. Sin Hendrick
Dr. Yung Bruce Pak Keung

NOMINATION COMMITTEE

Mr. Chang Yoe Chong Felix *(Chairman)*
Mr. Lau Ip Keung Kenneth
Mr. Sin Hendrick
Dr. Yung Bruce Pak Keung
Mr. Szeto Yuk Ting

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG LEGAL ADVISER

Norton Rose Fulbright Hong Kong

REGISTERED OFFICE

P.O. Box 472, 2nd Floor
Harbour Place, 103 South Church Street
George Town, Grand Cayman KY1-1106
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

11th Floor, Chiap Luen Industrial Building
30-32 Kung Yip Street
Kwai Chung, New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

International Corporation Services Ltd.
P.O. Box 472, 2nd Floor
Harbour Place, 103 South Church Street
George Town, Grand Cayman KY1-1106
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

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited (stock code: 1962)

COMPANY WEBSITE

www.epfhk.com

Chairman's Statement

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Evergreen Products Group Limited ("**Evergreen**" or the "**Company**") and its subsidiaries (collectively, the "**Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2019 (the "**Year**").

OVERVIEW

HONG KONG ECONOMY TURMOIL

During the Year, the Hong Kong economy has severely suffered from the Sino-US trade war and the Hong Kong social movement. Our Group is immunized from the negative impact arising from these threats because 94.5% of the Group's total revenue was generated from our Bangladesh production capacity and 78.5% of our total revenue is generated from the United States.

PRODUCTION FACILITIES IN BANGLADESH

We have successfully got our production facilities in Bangladesh up and running. In particular, the Bleaching and Dyeing Complex Phase I, which was established by the end of 2018, has significantly shortened the lead time and production costs in making human hair products. These new facilities equip us on selling more high unit price and profit margin products, such as human hair products.

Following the implementation of our new production facilities, some top customers, who have decades of relationship with us, acknowledged our notable improvement on product quality and price competitiveness. These top customers have increased their regular orders in the last quarter of the Year.

As such, we are very confident on the uptrend of future revenue and profitability in general.

BUSINESS REVIEW

INCREASE OF MINIMUM WAGE

During the Year, revenue of the Group increased while gross profit and net profit of the Group decreased due to the sudden and significant increment of minimum wages of workers in Bangladesh since December 2018. We promptly issued an announcement on the website of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") informing the public of this on 27 December 2018. We believe that the wage increment was an isolated event and the authority concerned will not impose similar policies in the near future.

CHANGE IN OUR PRICING POLICY

To cope with the sudden increase in wage cost, we have been adjusting various product pricing policies for the Year. For the first half of the Year, we have increased product selling prices and shifted the extra costs to customers. It turned out that the interim profit was maintained but the interim revenue growth was affected with an increment of 0.5% only, comparing to the same period of last year.

Our revenue momentum and market share have also been slightly affected. We decided to slightly adjust product selling prices downward in the second half of the Year. As a result, customer orders were regained in the second half of the Year and the total revenue for the Year achieved a 6.2% growth to HK$777.4 million, comparing with HK$732.2 million for the year ended 31 December 2018.

CHANGE IN OUR STAFFING POLICY

Our Group has further streamlined our production costs by implementing some effective staffing policies in Bangladesh during the second half of the Year. There is a wage difference inside and outside of our Bangladesh export processing zone. Starting from the second half of the Year, we have stopped hiring new workers inside our Bangladesh export processing zone and hired more workers outside the zone where workers accept lower wages. These policies are proven to be effective in order to minimize the impact on the minimum wage rate increment.

SHARE PLACEMENTS AND IMPROVEMENT ON GEARING RATIO

During the Year, the Group raised funds from the equity market for the first time. The Group successfully placed 33,180,000 existing ordinary shares with a nominal value of US$0.01 each of the Company ("**Shares**") to independent third parties on 26 September 2019 and issued new Shares by top-up subscription on 3 October 2019, raising HK$51.4 million. Moreover, the Group issued 12,902,000 new Shares to Evergreen Enterprise Holdings Limited, our controlling shareholder, under a specific mandate and raised approximately HK$20.0 million on 15 November 2019. The total amount of funds raised was approximately HK$71.4 million and has been used for repayment of existing bank borrowings. Details of the Share placements are set out in the announcements of the Company dated 20 September 2019, 26 September 2019, 3 October 2019 and 15 November 2019, respectively, and the circular of the Company dated 29 October 2019.

After these fund-raising exercises, the gearing ratio of the Group for the Year has dropped by 8.0%, from 91.0% to 83.0%.

FINANCIAL REVIEW

During the Year, the Group's turnover amounted to HK$777.4 million (2018: HK$732.2 million), representing a 6.2% increase from the year ended 31 December 2018. Due to the effect of the wage increment in Bangladesh, gross profit increased by 0.5% to HK$257.0 million, while gross profit margin decreased by 1.8 percentage point to 33.1%. The Group's operating net profit for the Year was HK$86.2 million, representing a decrease of HK$24.4 million, or 22.1%, as compared with HK$110.6 million for the year ended 31 December 2018.

OUTLOOK

The construction of new facilities in Bangladesh was mostly completed in 2019. The Group will concentrate on product development and production efficiency enhancement especially for human hair products with high unit price and profit margin.

The Group will keep reallocating workers inside and outside of our Bangladesh export processing zone in order to streamline salary costs.

With the further minimizing production scale of the factories in the Mainland China, the Group expects the overall production costs will decrease.

In the coming year, the Group will establish new wholesale offices in Asian countries for selling high-end human hair extensions under self-owned brands. Furthermore, the Group will put more effort on expanding our e-commerce platforms. On average, the retail price level of our products is around 300% higher than our factory price level. Having effective execution of these direct sales strategies, the gross profit margin and net profit of the Group are expected to elevate to the next higher level.

That said, although the recent outbreak of the novel coronavirus pneumonia ("**COVID-19**") and the subsequent quarantine measures imposed by the government of the People's Republic of China ("**PRC**") as well as the travel restrictions imposed by other countries in early 2020 has had no material impact on the operations of the Group up to the date of this annual report, given the unpredictability associated with the COVID-19 global outbreak and any further contingency measures that may be put in place by the relevant governments and corporate entities, we expect that the outbreak of the COVID-19 disease may affect the consolidated results of the Group for the remaining quarters of 2020.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK2.0 cents per Share for the Year, totaling approximately HK$13.2 million based on a total of 661,082,000 Shares in issue as at the date of this annual report, plus the interim dividend of HK1.0 cent per Share already declared and paid, making a total dividend of HK3.0 cents per Share (2018: final dividend of HK2.5 cents per Share and interim dividend of HK4.2 cents per Share). The dividend payout ratio for the Year was approximately 22.9% (2018: 37.3%). The Group decided to deploy sufficient funding and liquidity resources for future expenditure plans and any uncertain expenditures that may arise from the COVID-19 outbreak.

APPRECIATION

On behalf of the Board, I would like to thank all members of our staff and management team for their dedication and continuous support. I look forward to sharing Evergreen's prosperity with them and all of our shareholders and customers in the future.

Chang Yoe Chong Felix
Chairman

Hong Kong, 26 March 2020

BUSINESS REVIEW

During the Year, revenue of the Group increased while gross profit and net profit of the Group decreased mildly due to the sudden and significant increment of minimum wages of workers in Bangladesh since December 2018. To cope with the sudden increase in wage cost, the Group has been adjusting various product pricing policies for the Year. The Group has further streamlined our production costs by implementing some effective staffing policies in Bangladesh during the second half of the Year. These policies are proven to be effective in order to minimize the impact on the minimum wage rate increment.

During the Year, the Hong Kong economy has severely suffered from the Sino-US trade war and the Hong Kong social movement. The Group is immunized from the negative impact arising from these threats as it has successfully got its production facilities in Bangladesh up and running.

FINANCIAL REVIEW

During the Year, revenue of the Group increased slightly while gross profit and net profit of the Group deteriorated due to the significant increment of minimum wages of workers in Bangladesh since December 2018.

REVENUE

Revenue of the Group is mainly generated from the manufacturing and sale of its products. Revenue represents the amount received by the Group and the receivables for the sale of its products, net of any discounts and returns. The Group derives revenue from three principal product segments: (i) wigs, hair accessories and others; (ii) high-end human hair extensions (that is, human hair goods used for adding hair length and/or hair volume with an average retail price of over US$5 per gram); and (iii) Halloween products.

During the Year, the Group's revenue amounted to HK$777.4 million, representing an increase of HK$45.2 million or 6.2% as compared with HK$732.2 million for the year ended 31 December 2018. The increase was primarily due to the result of its long-standing stable business relationships with the Group's existing clients and the strong overall market demand for its wigs and hair products. During the Year, market demand for the Group's wig products continued to grow and such demand was satisfied by the rapid increase in production capacity at the production facilities in Bangladesh (the "**Bangladesh Factory**"). The Bangladesh Factory, which has consistent enhancements in its production capabilities and continued to steadily develop during the Year, remained as the main revenue source of the Group, facilitating its profitability growth. During the Year, the revenue generated from hair goods made at the Bangladesh Factory accounted for 94.5% of the Group's total revenue as compared to 92.3% for the year ended 31 December 2018.

The United States remained as the Group's principal market during the Year with revenue contribution accounting for 78.5% of the Group's total revenue during the Year as compared to 81.2% for the year ended 31 December 2018. In terms of product segments, wigs, hair accessories and others remained as the Group's key product segment, accounting for 71.4% of its total revenue during the Year as compared to 71.9% for the year ended 31 December 2018.

Wigs, *hair accessories and others*. Revenue from wigs, hair accessories and others increased by HK$28.2 million, or 5.4%, from HK$526.6 million for the year ended 31 December 2018 to HK$554.8 million for the Year, primary due to more sales of high-margin products such as lace wigs and less sales of low-margin products such as special braids during the Year.

High-end human hair extensions. Revenue from high-end human hair extensions increased by HK$18.9 million, or 11.4%, from HK$165.6 million for the year ended 31 December 2018 to HK$184.5 million for the Year, primarily due to higher sales volume driven by the increased production of the Bangladesh Factory.

Halloween products. Revenue from Halloween products slightly decreased by HK$1.9 million, or 4.8%, from HK$40.0 million for the year ended 31 December 2018 to HK$38.1 million for the Year. Sales of Halloween products during the Year remained steady.

COST OF GOODS SOLD

The Group's cost of goods sold increased by HK$44.0 million, or 9.2%, from HK$476.4 million for the year ended 31 December 2018 to HK$520.4 million for the Year, which is in line with an increase in revenue and minimum wages of workers in Bangladesh during the Year.

Wigs, hair accessories and others. Cost of goods sold for wigs, hair accessories and others increased by HK$24.4 million, or 6.7%, from HK$362.9 million for the year ended 31 December 2018 to HK$387.3 million for the Year, corresponding with an increase in sales of these products during the Year.

High-end human hair extensions. Cost of goods sold for high-end human hair extensions increased by HK$23.8 million, or 28.1%, from HK$84.8 million for the year ended 31 December 2018 to HK$108.6 million for the Year, which is in line with an increase in sales of these products during the Year.

Halloween products. Cost of goods sold for Halloween products decreased slightly by HK$4.2 million, or 14.6%, from HK$28.7 million for the year ended 31 December 2018 to HK$24.5 million for the Year, corresponding with a decrease in sales of these products during the Year.

GROSS PROFIT

The Group continued to enjoy low labour costs from production at the Bangladesh Factory during the Year. During the Year, the Group's gross profit amounted to HK$257.0 million, representing an increase of HK$1.2 million, or 0.5%, as compared with HK$255.8 million for the year ended 31 December 2018, primarily due to an increase in sales of high-margin products in the segment of wigs, hair accessories and others, which netted off against the significant increment of minimum wages of workers in Bangladesh since December 2018. During the Year, the Group's gross profit margin amounted to 33.1%, representing a decrease of 1.8 percentage points from 34.9% for the year ended 31 December 2018.

Wigs, hair accessories and others. Gross profit for wigs, hair accessories and others increased by HK$3.8 million, or 2.3%, from HK$163.7 million for the year ended 31 December 2018 to HK$167.5 million for the Year. Gross profit margin for this segment decreased from 31.1% for the year ended 31 December 2018 to 30.2% for the Year, primarily due to the increment of minimum wages of workers in Bangladesh.

High-end human hair extensions. Gross profit for high-end human hair extensions slightly decreased by HK$4.9 million, or 6.1%, from HK$80.8 million for the year ended 31 December 2018 to HK$75.9 million for the Year. Gross profit margin for this segment declined from 48.8% for the year ended 31 December 2018 to 41.1% for the Year, primarily due to the increment of minimum wages of workers in Bangladesh.

Halloween products. Gross profit for Halloween products increased by HK$2.3 million, or 20.4%, from HK$11.3 million for the year ended 31 December 2018 to HK$13.6 million for the Year. Gross profit margin for Halloween products increased from 28.1% for the year ended 31 December 2018 to 35.7% for the Year, primarily due to effective cost saving in the production of Halloween products.

OTHER INCOME

Other income maintained at HK$2.9 million for the year ended 31 December 2018 and for the Year, mainly consistent with rental income from warehouses and compensation from insurance claims in relation to cargo shipment.

OTHER GAINS AND LOSSES

Other gains and losses decreased by HK$4.7 million, or 57.3%, from a gain of HK$8.2 million for the year ended 31 December 2018 to a gain of HK$3.5 million for the Year, primarily due to the net effect of (i) increase in interest income earned from life insurance contracts to HK$3.7 million (2018: HK$1.1 million); and (ii) absence of a one-off and non-operating item during the Year as compared with the year ended 31 December 2018, during which a gain on disposal of two pieces of leasehold land and buildings totalling HK$6.6 million was recognised.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses decreased by HK$1.0 million, or 6.3%, from HK$16.0 million for the year ended 31 December 2018 to HK$15.0 million for the Year, primarily due to effective cost saving in advertising and a decrease in shipping expenses during the Year.

ADMINISTRATIVE EXPENSES

Administrative expenses rose by HK$17.2 million, or 14.0%, from HK$123.0 million for the year ended 31 December 2018 to HK$140.2 million for the Year, primarily due to an increase in staff salary and corresponding pension payments during the Year.

OTHER EXPENSES

Other expenses decreased by HK$0.6 million, or 46.2%, from HK$1.3 million for the year ended 31 December 2018 to HK$0.7 million for the Year, primarily due to a decrease in the amount of donations made by the Group.

FINANCE COSTS

Finance costs increased by HK$5.2 million, or 33.5%, from HK$15.5 million for the year ended 31 December 2018 to HK$20.7 million for the Year. During the Year, the Group capitalised interest on bank borrowings of HK$15.9 million as the cost of qualifying assets (2018: HK$9.7 million). Without such capitalisation, the increase in finance costs, as compared to the year ended 31 December 2018, was HK$11.4 million or 45.2% for the Year, primarily due to an increase in bank borrowings.

TAXATION

Income tax expense of the Group increased by HK$0.2 million, or 50.0%, from HK$0.4 million for the year ended 31 December 2018 to HK$0.6 million for the Year, primarily due to an increase in income tax expenses in China. Income tax expense was netted off against the reversal of deferred taxation in the amount of HK$0.2 million for the Year (2018: HK$0.3 million).

NET PROFIT

The Group's net profit for the Year amounted to HK$86.2 million, representing a decrease of HK$24.4 million, or 22.1%, as compared with HK$110.6 million for the year ended 31 December 2018, primarily attributable to the net effect of: (i) significant increment of minimum wages of workers in Bangladesh since December 2018; (ii) absence of a one-off and non-operating item during the Year as compared with the year ended 31 December 2018, during which a gain on disposal of two pieces of leasehold land and buildings totalling HK$6.6 million was recognised; and (iii) an increase in net profit arising from the manufacturing and sale of high-margin hair products.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's bank balances, pledged bank deposits and cash decreased by 15.9% from HK$153.7 million as at 31 December 2018 to HK$129.2 million as at 31 December 2019. The decrease in cash and bank balances as at 31 December 2019 was primarily due to the use up of the proceeds from the placements of Shares during the Year and the netting-off effect from an increase in borrowings for the construction payments and operating expenses such as salary and utilities payment with regard to the Bangladesh Factory.

SHARE PLACEMENTS

On 20 September 2019, the Company entered into a placing agreement with Evergreen Enterprise Holdings Limited ("**EEHL**"), a controlling shareholder of the Company, and the placing agents and entered into a subscription agreement with EEHL, pursuant to which (i) EEHL agreed to appoint the placing agents and each of the placing agents severally (and not jointly nor joint and several basis) agreed to act as the agents to procure not less than six placees to purchase an aggregate of up to 40,000,000 Shares, on a best effort basis, at the placing price of HK$1.55 per Share (the "**Placing**"); and (ii) EEHL agreed to subscribe for up to 40,000,000 Shares at the subscription price of HK$1.55 per Share (the "**Subscription**"). The Placing and the Subscription were completed on 26 September 2019 and 3 October 2019, respectively. The placing price of HK$1.55 per placing Share represents (i) a discount of approximately 14.36% to the closing price of HK$1.81 per Share as quoted on the Stock Exchange on 20 September 2019, being the date of the placing agreement and the subscription agreement; and (ii) a discount of approximately 13.41% to the average of the closing price of HK$1.79 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to 20 September 2019. A total of 33,180,000 Shares with aggregate nominal value of US$331,800 were successfully placed to not less than six independent placees under the Placing and an equal number of Shares were successfully issued under the Subscription. The gross proceeds and net proceeds were approximately HK$51.4 million and HK$50.5 million, respectively. The net price per placing Share was approximately HK$1.52. The net proceeds of the Subscriptions have been used in settling outstanding liabilities of the Group. Details of the Placing and the Subscription were disclosed in the announcements of the Company dated 20 September 2019, 26 September 2019 and 3 October 2019, respectively.

In addition, on 20 September 2019, the Company and EEHL entered into a subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and EEHL conditionally agreed to subscribe for 12,902,000 Shares at the subscription price of HK$1.55 per Share (the "**Connected Transaction Subscription**"). The Connected Transaction Subscription was completed on 15 November 2019. EEHL undertakes that the subscription Shares are subject to a lock-up period of 12 months from the completion date during which EEHL shall not offer, lend, contract to sell, pledge, grant any option to purchase or otherwise dispose of, any of the subscription Shares. The gross proceeds and net proceeds were both approximately HK$20.0 million. The net price per Share subscribed was HK$1.53 and the aggregate nominal value of the Shares subscribed was US$129,020. The net proceeds of the Connected Transaction Subscription have been used in settling outstanding liabilities of the Group. Details of the Connected Transaction Subscription were disclosed in the announcements of the Company dated 20 September 2019 and 15 November 2019, respectively, and the circular of the Company dated 29 October 2019.

The Company has been exploring various options to raise capital. Taking into account the benefits and cost of each of the options, the Board considered that the placing and the subscriptions were in the interests of the Company and the shareholders as a whole as they would not impose any interest burden on the Group. In the circumstances, the Company considered that the placing and the subscriptions were the most efficient way to raise capital in order to maintain a sufficient cash position of the Group to meet its current liabilities and to enhance the capital base of the Company. Accordingly, the Company was of the view that the placing and the subscriptions were in the best interest of the Company and its shareholders as a whole.

BORROWINGS AND GEARING RATIO

As at 31 December 2019, the Group's banking facilities amounted to HK$729.7 million, of which HK$10.9 million remained unutilised. As at 31 December 2019, the gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, bank overdrafts, obligations under finance leases and any preferred Shares) divided by total equity, was 83.0% as compared to 91.0% as at 31 December 2018. Moreover, the net gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, bank overdrafts, obligations under finance leases and any preferred Shares) net of total cash and bank balances divided by total equity, was 68.1% as compared to 69.4% as at 31 December 2018. Both the gearing ratio and net gearing ratio were enhanced by the placements of new Shares during the Year.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

During the Year, the Group spent approximately HK$198.0 million (including interest on bank borrowings of HK$15.9 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK$202.7 million (including interest on bank borrowings of HK$9.7 million capitalised as the cost of qualifying assets) for the year ended 31 December 2018 mainly to further upgrade and expand its manufacturing capabilities in Bangladesh. As at 31 December 2019, the Group had capital commitments of HK$0.1 million in respect of property, plant and equipment (31 December 2018: HK$1.4 million).

CURRENCY RISKS

A significant portion of the Group's revenue is derived from sales to overseas customers denominated in foreign currencies. For the Year, 78.5% (2018: 93.0%) of the Group's revenue was denominated in U.S. dollar ("**US$**"). The Group mainly operates in Bangladesh and the PRC and most of the Group's operating expenses are denominated in Bangladeshi Taka ("**Taka**") and Renminbi ("**RMB**").

During the Year, the Group did not enter into any foreign currency forward contracts in view of the high volatility in the exchange rate of RMB. The Group has not hedged exposure to any change in the foreign exchange rate of Taka. The value of Taka or RMB against US$ and other currencies may fluctuate due to, among other things, political as well as economic policies and conditions both in the jurisdictions in which the Group operates as well as globally. The Group's profit margins could be adversely affected to the extent that the Group is unable to increase the US$ denominated selling prices of products sold to overseas customers or shift the exchange risk to the Group's customers to account for the appreciation of Taka or RMB against US$. These fluctuations may result in exchange losses or gains or increases or reductions in the Group's costs after translation from US$ to RMB or Taka. Any appreciation of Taka or RMB may lead to an increase in the Group's manufacturing costs if the Group is unable to pass on such additional costs to customers. This potential increase may, in turn, affect the Group's competitiveness against competitors outside Bangladesh and/or the PRC.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's banking facilities were secured by:

(a) a pledge of the Group's bank deposits of approximately HK$93.1 million;

(b) a negative pledge on the assets of the Group's subsidiaries in the PRC;

(c) insurance contracts entered for one of the Directors; and

(d) the Group's land and buildings in Hong Kong.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed a total of (i) 21,634 employees in Bangladesh, as compared to 18,015 as at 31 December 2018, (ii) 402 employees in China, as compared to 612 as at 31 December 2018, (iii) 62 employees in Hong Kong, as compared to 69 as at 31 December 2018, and (iv) 31 employees in Japan, the United States, Thailand and Ukraine, as compared to 25 as at 31 December 2018.

Total employee expenditures during the Year amounted to HK$321.7 million as compared to HK$275.7 million for the year ended 31 December 2018. The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all qualified employees. Employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. For employees in Bangladesh, the Group is currently not subject to any compulsory social insurance contribution, but they are covered by a self-managed provident fund operated by the respective subsidiaries of the Group in Bangladesh.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, (i) there were no significant investments held, nor were there any material acquisitions or disposals during the Year; and (ii) no plans have been authorised by the Board for any material investments or additions of capital assets as at the date of this annual report.

OUTLOOK

The construction of new facilities in Bangladesh was mostly completed in 2019. The Group will concentrate on product development and enhancement of production efficiency especially for human hair products with high unit price and profit margin. The Group will keep reallocating workers inside and outside of our Bangladesh export processing zone in order to streamline salary costs. With the further minimizing production scale at the factories in China, the Group expects the overall production costs will decrease.

In the coming year, the Group will establish new wholesale offices in Asian countries for selling high-end human hair extensions under self-owned brands. Furthermore, the Group will put more effort on expanding our e-commerce platforms. On average, the retail price level of our products is around 300% higher than our factory price level. Having effective execution of these direct sales strategies, the gross profit margin and net profit of the Group are expected to elevate to the next higher level.

The recent outbreak of the COVID-19 disease and the subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 has no material impact on the operations of the Group up to the date of this annual report. However, given the unpredictability associated with the COVID-19 global outbreak and any further contingency measures that may be put in place by the relevant governments and corporate entities, the Group expects that the outbreak of the COVID-19 disease may affect the consolidated results of the Group for the remaining quarters of 2020.

Biographical Details of Directors and Senior Management

Brief biographical particulars of the existing Directors and senior management of the Company are set out below:

EXECUTIVE DIRECTORS

Mr. Chang Yoe Chong Felix, aged 54, has been a Director since the incorporation of the Company on 19 May 2016. Mr. Chang was re-designated as an executive Director and appointed as the Chief Executive Officer on 9 September 2016. He is also the Chairman of the Group, the chairman of the nomination committee (the "**Nomination Committee**") and a member of the remuneration committee (the "**Remuneration Committee**") of the Company and has assumed various positions in the Company's subsidiaries including a director of Evergreen Products Factory Limited, a director of EPF Global Enterprises Limited, a director of EPF International Limited, the sole director and manager of Kunming Evergreen Hair Products Co., Ltd.* (昆明訓修髮製品有限公司), a director of Evergreen Products Factory (BD) Ltd., a director of Gold Timing Manufacture (BD) Limited and the manager of Evergreen Products Factory (YZ) Co., Ltd.* (訓修實業(禹州)有限公司). He is responsible for the Group's overall business strategy and major business decisions. He also oversees the Group's operation in Hong Kong, China, Bangladesh and Japan. Mr. Chang is also a director of certain substantial shareholders of the Company including Evergreen Enterprise Holdings Limited, Golden Evergreen Limited, FC Investment Worldwide Limited and CLC Investment Worldwide Limited.

Mr. Chang joined the Group in April 1992 as a manager and was promoted to be the Vice-Chairman and Managing Director in September 1996. He accumulated over 28 years of experience in the hair goods industry. Since joining the Group, Mr. Chang has been responsible for the Group's business strategies and decision-making. Mr. Chang also developed and modified the Group's strategies relating to production, market strategies, and research and development. He has also proposed directional recommendations to the Company by discovering new business opportunities. Mr. Chang has also significantly expanded the Group's scale of production which has led to the Group's current leading position in the hair goods industry.

Mr. Chang obtained a Master of Science degree in Information Technology for Manufacture and a Bachelor of Science degree with honours in Computer and Management Sciences from the University of Warwick in the United Kingdom in July 1992 and July 1990, respectively. Mr. Chang has become a member of the Yunnan Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議) since January 2018. Mr. Chang is the son of Mr. Chang Chih Lung, a controlling shareholder and a substantial shareholder of the Company.

Save as disclosed above, Mr. Chang does not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Chang in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the Securities and Futures Ordinance (the "**SFO**") are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Mr. Kwok Yau Lung Anthony, aged 42, was appointed as an executive Director and the Chief Operating Officer on 9 September 2016. Mr. Kwok is currently the head of the Company's logistics, procurement and human resources and administration department. He is primarily responsible for the Group's logistics, procurement, brand development and management.

* *For identification purposes only*

Mr. Kwok joined the Group in September 2000. After heading to Japan for his further education in October 2003, Mr. Kwok returned to the Group in April 2005. From April 2005 to July 2012, Mr. Kwok worked for the Group and held last position as a director of Evergreen Products Factory Limited. He assisted the Group in setting up its e-commerce business in Japan and establishing its Bangladesh Production Base. Prior to Mr. Kwok's current employment with the Group in June 2016, Mr. Kwok worked at Direct Source (Far East) Limited, a garment manufacturer, from November 2012 to January 2015 and from March 2015 to May 2016, respectively, and was responsible for all merchandising activities.

Mr. Kwok obtained a Bachelor of Science in Mathematics from the Hong Kong University of Science and Technology in July 2000.

Mr. Kwok does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Kwok in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Mr. Chan Kwok Keung, aged 52, was appointed as an executive Director on 9 September 2016. Mr. Chan is currently the head of the Company's sales and marketing department and primarily responsible for overseeing the Group's sales and marketing.

Mr. Chan joined the Group in March 1995 and accumulated over 25 years of experience in sales and marketing. He has held various positions in the Group, including director of Evergreen Products Factory Limited, director of EPF Global Enterprises Limited, director of EPF International Limited, director of Evergreen Products Factory (BD) Ltd., as well as director of Gold Timing Manufacture (BD) Limited. Before joining the Group, Mr. Chan worked in the Korea Trade Centre, the Korean Trade-Investment Promotion Agency, as a market research officer from September 1990 to April 1994.

Mr. Chan obtained a Higher Diploma in Institutional Management and Catering Studies from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in November 1990.

Mr. Chan does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Chan in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Mr. Hui Wing Ki, aged 40, was appointed as an executive Director on 15 November 2018, Mr. Hui is primarily responsible for procurement of human hair and sales and marketing of high-end human hair extension.

Mr. Hui joined the Group in August 2001 as marketing executive and accumulated over 15 years of experience in sales and marketing. He was promoted to be a senior manager in January 2012. As the Company's senior manager, Mr. Hui focuses on procurement of human hair, including budget estimates and quality and inventory control; sales and marketing of high-end human hair extension; supervision of sales and marketing in Caucasian and Asian markets; and identification of potential growth of existing customers as well as development of new customers in line with the Group's objectives in Caucasian and Asian markets.

Mr. Hui obtained a Bachelor of Business Administration degree in China Business Studies (Marketing) from Hong Kong Baptist University in December 2001.

Mr. Hui does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Hui in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Ms. Jia Ziying, aged 43, was appointed as an executive Director on 9 September 2016. Ms. Jia is currently the head of the Company’s research and development department and production coordination department and is primarily responsible for the Group’s product research and development, and the overall manufacturing management. She is also a director of Evergreen Products Factory Limited.

Ms. Jia joined the Group in July 1997 and accumulated over 20 years of experience in design and development of the hair goods. In February 2002, she set up a product design, research and development division for wigs made by sewing machines. In February 2009, Ms. Jia took charge of the product design, research and development division for weaving products. In February 2011, she was promoted to the head of the Group’s research and development department and production coordination department. As the head of the Group’s production coordination department, Ms. Jia has been primarily responsible for overseeing production and operations management. In March 2011, Ms. Jia also took charge of the product design, research and development division for Halloween products.

Ms. Jia obtained a Diploma in Accounting and Statistics from Chongqing Radio and TV University (重慶廣播電視大學) in October 1997. Ms. Jia is the spouse of Mr. Li Yanbo, an executive Director.

Save as disclosed above, Ms. Jia does not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Ms. Jia in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

Mr. Li Yanbo, aged 49, was appointed as an executive Director on 9 September 2016. He is primarily responsible for the Company's sales and marketing in the PRC. Mr. Li is also a director of Evergreen Products Factory (SZ) Co., Ltd.* (訓修實業(深圳)有限公司) and Evergreen Products Factory Limited, respectively.

Mr. Li has over 20 years of experience in sales and marketing and has assumed various positions in the Group. Mr. Li joined the Group in September 1995 as a merchandiser in Shenzhen Evergreen Hair Products Co., Ltd.* (深圳訓修髮製品有限公司) and was later promoted to its production planner and production director in October 1996 and February 1997, respectively. In October 1998, Mr. Li was further promoted to the manager of the PRC marketing department in Kunming Evergreen Hair Products Co., Ltd.* (昆明訓修髮製品有限公司). Since then, he has been primarily responsible for the Group's sales and marketing in the PRC, including but not limited to sales, marketing planning, market information collection and after-sales service.

Mr. Li graduated from Northwest A&F University (西北農林科技大學) majoring in Environmental Monitoring and Assessment (distance learning) in July 2016. He graduated from a two-year programme in business administration of China Sociology Correspondence University (中國社會學函授大學) (not MOE accredited) (distance learning) in August 2004. In July 1990, he completed two years of study majoring in English in Hunan Wulingyuan Foreign Language School (湖南武陵源外國語學校).

In March 2003, Mr. Li obtained a Qualification Certificate for National Marketing Manager approved and issued by the Marketing Professional Committee of China Business Manager Association. Mr. Li is the spouse of Ms. Jia Ziying, an executive Director.

Save as disclosed above, Mr. Li does not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

The discloseable interests of Mr. Li in the shares and underlying shares of the Company and its associated corporations under the provisions of Part XV of the SFO are set out in the section headed "Report of the Directors – Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company and its Associated Corporations" in this annual report.

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NON-EXECUTIVE DIRECTORS

Mr. Chan Lau Yui Kevin, aged 53, was appointed as a non-executive Director on 9 September 2016, representing SEAVI Advent Investments Ltd, a pre-IPO investor of the Group. He is also a director of Evergreen Enterprise Investment Limited and Evergreen Products Factory Limited. Mr. Chan is responsible for formulation of the Group's strategic directions and for high level oversight of the Group's management and operations. Mr. Chan is a senior partner of SEAVI Advent Private Equity Limited, overseeing its fund management activities for private equity investments in Greater China. Mr. Chan is also an executive director and a responsible officer of SEAVI Advent Ocean Private Equity Limited, a company licensed to conduct type 9 (asset management) regulated activities under the SFO.

Mr. Chan first joined Advent International Corporation as the Principal of its Technology and Communications Investment in its Hong Kong office in May 2000. He has been with SEAVI Advent Equity Limited, the Asian affiliate of Advent International Corporation since July 2002. Prior to the employment in Advent International Corporation, Mr. Chan worked at HSBC Investment Bank Asia Limited from June 1999 to May 2000 and his last position was an associate director, and earlier worked as an associate in the Investment Banking Division of Goldman Sachs (Asia) L.L.C. from 1997 to 1999.

Mr. Chan obtained a Master of Business Administration degree from Columbia University in May 1997, a Master of Arts degree from the University of Cambridge in May 1993, a Master of Science degree in Electrical Engineering from Polytechnic University in the U.S. (currently known as New York University Polytechnic School of Engineering) in June 1991 and a Bachelor of Arts degree from the University of Cambridge in July 1989. He is a member of the Institution of Engineering and Technology and the Institute of Electrical and Electronics Engineers, respectively, and is a Chartered Engineer. Mr. Chan has been a responsible officer licensed under the SFO to engage in type 9 (asset management) regulated activities since July 2008. He was awarded the Pearson SRF BTEC Level 7 Advanced Professional Diploma for the Financial Times Non-Executive Director by Pearson Education Ltd in May 2016.

Mr. Chan does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2019, Mr. Chan did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Biographical Details of Directors and Senior Management

Mr. Chan Hoi Sing Harold, aged 53, has been a Director since the incorporation of the Company on 19 May 2016 and was re-designated as a non-executive Director on 9 September 2016, representing SEAVI Advent Investments Ltd, a pre-IPO investor of the Group. He is also a director of Evergreen Products Factory Limited. Mr. Chan is responsible for formulation of the Group's strategic directions and for high level oversight of the Group's management and operations. Mr. Chan is also an executive director and a responsible officer of SEAVI Advent Ocean Private Equity Limited, a company licensed to conduct type 9 (asset management) regulated activities under the SFO. He is involved in deal sourcing and structuring, due diligence, investment committee activities and Hong Kong investor relations.

In February 2004, Mr. Chan founded Shun Hing Capital (Asia) Limited, the investment arm of Shun Hing Group, and oversees its investment activities. Prior to this, he served as a vice president, Mergers & Acquisitions of PCCW where he focused on structuring transactions for the group's mergers & acquisitions activities and venture capital investments from February 2000 to March 2003. Before joining PCCW, Mr. Chan was an assistant manager of the Listing Division of the Stock Exchange. His prior career included Tokai Bank Europe Limited and KPMG in the United Kingdom.

Mr. Chan obtained a Master of Arts degree from the University of Cambridge in March 1993 and a Bachelor of Arts degree from the University of Cambridge in June 1989. Mr. Chan is a Chartered Accountant of the Institute of Chartered Accountants in England and Wales and has been a fellow of the Institute of Chartered Accountants in England and Wales since April 2011.

Mr. Chan does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2019, Mr. Chan did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Ip Keung Kenneth, aged 53, was appointed as an independent non-executive Director on 19 June 2017. He is a member of each of the audit committee (the "**Audit Committee**") of the Company, the Remuneration Committee and the Nomination Committee. Mr. Lau is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Mr. Lau is the vice chairman of Wing Tung Yick Holdings Limited, and the chairman of Super Clean Agricultural Technology International Limited, a company principally engaged in agricultural business. He has assumed various positions in numerous statutory bodies in Hong Kong, including non-official member of the Executive Council of Hong Kong since July 2017, member of the Legislative Council of Hong Kong for the Heung Yee Kuk functional constituency since October 2016; member of Tuen Mun District Council since May 2016; the chairman of the Heung Yee Kuk since June 2015; an indigenous inhabitant representative of Lung Kwu Tan, Tuen Mun, since May 2016; and the chairman of the Tuen Mun Rural Committee since May 2016. He is also a member of the National Committee of the Chinese People's Political Consultative Conference since March 2013.

Mr. Lau obtained a Bachelor of Science (Economics) degree with Honours in Statistics from the London School of Economics and Political Science, the University of London in August 1990. He was appointed by the Hong Kong Government as a New Territories Justice of the Peace in 2007 and a Justice of the Peace in 2002, respectively, and also awarded the Medal of Honour in 1999 by the Hong Kong Government.

Mr. Lau does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2019, Mr. Lau did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Mr. Sin Hendrick, aged 45, was appointed as an independent non-executive Director on 19 June 2017. He is the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Sin is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Mr. Sin is a founding partner of China Prosperity Capital Fund. He is also the vice chairman of CMGE Group Limited and has been an executive director of CMGE Technology Group Limited (the shares of which were listed on the Stock Exchange on 31 October 2019, stock code: 0302) since 25 April 2018. Between July 2013 and August 2015, Mr. Sin was an independent non-executive director of AID Partners Capital Holdings Limited, a company listed on the Stock Exchange (Stock Code: 8088). Between March 2009 and October 2012, Mr. Sin was an executive director and the chief financial officer of V1 Group Limited, a company listed on the Stock Exchange (Stock Code: 0082).

Mr. Sin obtained a Master of Science degree in Engineering Economic Systems and Operations Research from Stanford University in June 1997. He also obtained three Bachelor of Science degrees in Mathematics/Computer Science, Economics and Industrial Management from Carnegie Mellon University in May 1996. Mr. Sin is a member of The Hong Kong Institute of Directors. Mr. Sin has become a member of the Tianjin Municipal's Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議) since January 2018.

Mr. Sin does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2019, Mr. Sin did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Dr. Yung Bruce Pak Keung, aged 58, was appointed as an independent non-executive Director on 19 June 2017. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Dr. Yung is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Dr. Yung has been the founder and managing director of BVB Group Ltd, a development and advisory firm in the renewables, sustainability and energy spaces, since September 2015. He is also a senior advisor to Canaccord Genuity (Hong Kong) Limited, as well as a director of MissionBlue Capital Advisors Limited.

Dr. Yung had assumed various positions in companies listed on the Stock Exchange, including chief executive officer and executive director of Brightoil Petroleum (Holdings) Limited (Stock Code: 933) from July 2014 to August 2015; and managing director and executive director of China Renewable Energy Investment Limited (Stock Code: 987) from August 2009 to September 2012. He had also held numerous management positions in international companies, including managing director and vice president of Business Development of First Solar China from September 2012 to December 2013.

Dr. Yung obtained a Doctor of Philosophy degree and a Bachelor of Science degree (with Honours) in Chemical Engineering from the University of Birmingham, U.K., in July 1987 and July 1983, respectively. He also obtained a Master of Business Administration degree (distance learning) from Henley Management College, U.K., in November 2012. He completed the 174th session of the Advanced Management Program of Harvard Business School in May 2008. Dr. Yung was admitted as a member of the Hong Kong Institute of Directors since January 2012; a member of the Association of Cost Engineers, U.K., in June 1993; a member of the Institution of Gas Engineers, U.K., in February 1992; a corporate member of the Institution of Chemical Engineers, U.K., in November 1990.

Dr. Yung does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2019, Dr. Yung did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Mr. Szeto Yuk Ting, aged 52, was appointed as an independent non-executive Director on 19 June 2017. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Mr. Szeto is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Mr. Szeto was admitted as a solicitor in Hong Kong in September 1992 and had over 25 years of legal experience. His major areas of practice include civil and criminal litigation, conveyancing and probate. Mr. Szeto co-founded Messrs. Y.T. Szeto & Company, Solicitors in September 1996 and has been the sole proprietor of the firm since January 2001. He also worked in Messrs. Paul Chan & Co., Solicitors from 1993 to 1996.

Mr. Szeto obtained a Postgraduate Certificate in Laws and a Bachelor of Laws degree (with Honours) from the University of Hong Kong in June 1990 and December 1989, respectively.

Mr. Szeto does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at 31 December 2019, Mr. Szeto did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

Ir. Cheung Siu Wa, aged 58, was appointed as an independent non-executive Director on 18 February 2019, Ir. Cheung is responsible for giving strategic and independent advice and guidance on the Group's business and operations.

Ir. Cheung is an equity partner of Key Direction Limited ("**KDL**"), a railway engineering consultancy firm based in Hong Kong with subsidiaries in Kuala Lumpur, Singapore and Macau. He has been appointed as the vice chairman and a director of KDL since September 2018. Before joining KDL, he worked in MTR Corporation Limited ("**MTR**"), a company listed on Stock Exchange (stock code: 0066), for 35 years during the period from November 1983 to July 2018 and held various senior positions in MTR involving railway operations and maintenance and construction of new extension projects. He joined MTR in 1983 as a graduate engineer, and had progressed over the years to senior management positions in its Operations and Projects Divisions. He was seconded to Ngong Ping 360 Limited as its managing director from September 2007 to July 2009. In July 2009, Ir. Cheung was appointed as the Chief of Operating of MTR and was responsible for the operations of all transport business of MTR in Hong Kong. In January 2011, he took up the position of the Chief of Operations Engineering of MTR for overseeing all maintenance and technical functions for railway assets. Ir. Cheung was the Human Resources Director of MTR between July 2012 and June 2015 and the European Business Director of MTR between June 2015 and June 2016. He was the president of the MTR Academy between July 2016 and July 2018 and a member of the Executive Directorate of MTR between July 2012 and July 2018.

Ir. Cheung is a fellow of each of The Hong Kong Institution of Engineers, The Institution of Electrical Engineers of the United Kingdom and The Chartered Institute of Logistics & Transport in Hong Kong. He is also a member of the Hong Kong Institute of Directors. Ir. Cheung has become a member of the Yunnan Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議) since January 2018.

Ir. Cheung obtained a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from The University of Hong Kong in 1983 and 1990, respectively, a Master of Business Administration degree from the City Polytechnic of Hong Kong (now called City University of Hong Kong) in 1990 and a Master of Science degree in Financial Analysis from The Hong Kong University of Science and Technology in 2005.

Ir. Cheung does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the 31 December 2019, Ir. Cheung did not have any interests in the shares, underlying shares and debentures of the Company and its associated corporations under the provisions of Part XV of the SFO.

SENIOR MANAGEMENT

Ms. Leung Pui Yee, aged 41, is the Chief Financial Officer and company secretary of the Company, and is responsible for supervising financial reporting, corporate finance, treasury, tax and other financial related matters, and overseeing investment activities and transactions of the Group. She has also assumed various positions in the Company's subsidiaries including a director of each of Evergreen Products Factory (BD) Ltd. and Gold Timing Manufacture (BD) Limited.

Ms. Leung joined the Group in May 2011 as financial controller and was appointed as the Chief Financial Officer and company secretary of the Company on 9 September 2016. Ms. Leung has over 16 years of experience in accounting and financial management. Prior to joining the Group, from September 2003 to September 2010, Ms. Leung worked at Deloitte Touche Tohmatsu, an international accounting firm, and her last position was manager.

Ms. Leung obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in November 2003. Ms. Leung has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since February 2011. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Company is committed to maintaining high standard of corporate governance practices. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Board is of the view that, the Company has complied with all the code provisions as set out in the CG Code throughout the Year, save and except for code provision A.2.1, which states that the roles of chairman and chief executive should be separate and should not be performed by the same individual, details of which are set out below:

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Mr. Chang Yoe Chong Felix, an executive Director, currently performs these two roles in the Company. Given the current scale of the Company's operations and management structure, the Company considers that entrusting Mr. Chang, who has been the Company's key leadership figure and chiefly responsible for the business strategy, decisions and operations, to perform both the functions of the chairman and the chief executive officer of the Company is appropriate. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired considering the background and experience of the Directors and the number of independent non-executive Directors in the Board and this structure will enable the Company to make and implement decisions promptly and effectively.

CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A. DIRECTORS

A.1. Board of Directors

The Company should be headed by an effective Board which should assume responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Directors should take decisions objectively in the interests of the Company.

The Board shall resolve to provide separate independent professional advice to the Directors to assist the Directors to discharge their duties at the Company's expenses.

A.2. Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Company's business. There should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

In view of the present composition of the Board, the in-depth knowledge of Mr. Chang Yoe Chong Felix, the Chairman and the Chief Executive Officer, of the Company's operations and the wigs industry in general, his extensive business network and connections, and the scope of operations of the Company, the Board believes that it is in the best interest of the Company for Mr. Chang Yoe Chong Felix to assume the roles of both the Chairman and the Chief Executive Officer.

A.3. Board Composition

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. The Board should ensure that changes to its composition can be managed without undue disruption. The Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board to enable effective exercise of independent judgment. Non-executive Directors should be of sufficient calibre and number for their views to carry weight.

The Board currently comprises six executive Directors, namely, Mr. Chang Yoe Chong Felix, Mr. Kwok Yau Lung Anthony, Mr. Chan Kwok Keung, Mr. Hui Wing Ki, Ms. Jia Ziying and Mr. Li Yanbo; two non-executive Directors, namely, Mr. Chan Lau Yui Kevin and Mr. Chan Hoi Sing Harold; and five independent non-executive Directors, namely, Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, Dr. Yung Bruce Pak Keung, Mr. Szeto Yuk Ting and Ir. Cheung Siu Wa. Mr. Li Yanbo is the spouse of Ms. Jia Ziying. Mr. Chang Yoe Chong Felix is the Chairman of the Board.

During the Year, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of at least three independent non-executive Directors with one of whom, being Mr. Sin Hendrick, possessing appropriate professional qualifications, or accounting or related financial management expertise. On 18 February 2019, the Board appointed Ir. Cheung Siu Wa as an additional independent non-executive Director in order to strengthen the composition of the Board.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the requirements set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Biographies of the Directors including the necessary details of the relationships among the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications among members of the Board.

A.4. Appointments, Re-election and Removal of Directors

There should be formal, considered and transparent procedures for the appointment of new Directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any Director.

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years subject to renewal after the expiry of the current term.

According to article 108 of the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office.

According to article 112 of the articles of association of the Company, any Director appointed to fill a casual vacancy or as an additional Director shall hold office only until the first general meeting of the Company after such appointment and be subject to re-election at such meeting.

A.5. Responsibilities and Delegation of Directors

The Board oversees the overall management of the Company's businesses and affairs. The Board's primary duty is to ensure the viability of the Company and to ascertain that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

The Board reserves its decision for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company.

The Board has delegated the day-to-day management of the Company's businesses to the management and the executive committee of the Company, and focuses its attention on matters affecting the Company's long-term objectives and plans for achieving these objectives, the overall business and commercial strategy of the Group as well as overall policies and guidelines.

During the Year, all Directors have been provided, on a quarterly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects in sufficient detail to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the Listing Rules.

All Directors are entitled to access Board papers, minutes and related materials. Where queries are raised by Directors, steps are taken to respond as promptly and fully as possible.

A.6. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code during the Year.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

A.7. Corporate Governance Functions

The Audit Committee is responsible for performing the functions as set out in code provision D.3.1 of the CG Code.

During the Year, the Audit Committee has reviewed the Company's corporate governance policies and practices, training and continuous professional development ("**CPD**") of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance with the CG Code and the disclosures in this report.

A.8. Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director would receive 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 Listing Rules and relevant statutory requirements. Such induction would be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate CPD training to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The Directors are required to provide the Company with details of the CPD training undertaken by them from time to time. Based on the details so provided, the CPD training undertaken by the Directors in the Year is summarized as follows:

Name	Attending internal seminars and training on the Model Code and corporate governance	Attending seminars/ workshops on Directors' responsibilities and other related issues	Reading relevant news alerts, newspapers, journals, magazines, relevant publications and guidelines on Directors' continuous responsibilities, corporate governance and other related issues
Executive Directors			
Mr. CHANG Yoe Chong Felix *(Chairman and Chief Executive Officer)*	–	–	✓
Mr. KWOK Yau Lung Anthony *(Chief Operating Officer)*	–	–	✓
Mr. CHAN Kwok Keung	–	–	✓
Mr. HUI Wing Ki	–	–	✓
Ms. JIA Ziying	–	–	✓
Mr. LI Yanbo	–	–	✓
Non-executive Directors			
Mr. CHAN Lau Yui Kevin	–	✓	✓
Mr. CHAN Hoi Sing Harold	–	✓	✓
Independent non-executive Directors			
Mr. LAU Ip Keung Kenneth	–	–	✓
Mr. SIN Hendrick	–	–	✓
Dr. YUNG Bruce Pak Keung	–	–	✓
Mr. SZETO Yuk Ting	–	–	✓
Ir. CHEUNG Siu Wa (appointed on 18 February 2019)	–	✓	✓

Each of the Directors has complied with code provision A.6.5 of the CG Code. The Directors have confirmed that they have devoted sufficient time and attention to the affairs of the Group. Besides, the Directors have disclosed to the Company their interests as director and other office in other public companies and organizations in a timely manner and updated the Company on any subsequent changes.

B. BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs and delegated its authority to these committees to assist it in the implementation of its functions.

The terms of reference setting out the authorities, duties and responsibilities of the above committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

B.1. Audit Committee

On 19 June 2017, the Board established the Audit Committee which currently comprises four independent non-executive Directors, namely Mr. Sin Hendrick (Chairman), Mr. Lau Ip Keung Kenneth, Dr. Yung Bruce Pak Keung and Mr. Szeto Yuk Ting. The Company has complied with Rule 3.21 of the Listing Rules, which requires that the Audit Committee must comprise a minimum of three members with at least one member being an independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise, and must be chaired by an independent non-executive Director. All members of the Audit Committee have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company.

B.1.1. Duties of the Audit Committee

The Audit Committee is principally responsible for, among other things, monitoring the integrity of periodical financial statements of the Company, reviewing significant financial reporting judgments contained in them before submission to the Board for approval, reviewing and monitoring the external auditor's independence and objectivity as well as the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee has been delegated with the responsibilities to develop, review, monitor, and make recommendations to the Board (as appropriate) in respect of the Company's policies and practices of corporate governance (including the compliance with the CG Code and the relevant disclosures in the Company's interim and annual reports), whether the practices are in compliance with legal and regulatory requirements, the Company's compliance with the CG Code and disclosures in this report and the training and continuous professional development of the Directors and senior management of the Company. In addition, the Audit Committee has also been delegated the duties of overseeing and reviewing the Company's risk management and internal control systems.

B.1.2. Work Performed by the Audit Committee

The Audit Committee held two meetings during the Year, at which it reviewed the audited annual results of the Group for the year ended 31 December 2018, the unaudited interim results of the Group for the six months ended 30 June 2019, the terms of reference of the Audit Committee, other matters related to the financial and accounting policies and practices of the Company, as well as the nature and scope of the audit for the Year. Further, it reviewed the Group's internal control review report, the risk management policy and a report on risk assessment prepared by Naree International Limited (an independent advisor of the Company) (the "**Independent Advisor**"), and put forward relevant recommendations to the Board for approval.

During the Year, the terms of reference of the Audit Committee had been revised, under which the cooling-off period for a former partner of the Company's existing auditing firm to act as a member of the Audit Committee has been amended to align with the relevant requirements under the Listing Rules.

On 26 March 2020, the Audit Committee held another meeting and reviewed the audited consolidated financial statements of the Group as well as the accounting principles and policies for the Year in the presence of the representatives from Deloitte Touche Tohmatsu, the Company's independent auditor ("**Deloitte**" or the "**Independent Auditor**"), and the Company's management. It also reviewed this report, a report on enterprise risk management of the Company prepared by the Independent Advisor and a report on internal control review and assessment of risk management prepared by the internal audit team of the Group. The Audit Committee concluded that the internal control systems and risk management of the Group are effective and adequate.

B.2. Remuneration Committee

On 19 June 2017, the Board established the Remuneration Committee which currently comprises five members, including four independent non-executive Directors, namely Mr. Szeto Yuk Ting (Chairman), Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick and Dr. Yung Bruce Pak Keung and an executive Director, Mr. Chang Yoe Chong Felix.

The Remuneration Committee has adopted the model under code provision B.1.2(c)(ii) of the CG Code, where it performs an advisory role to the Board by making recommendations to the Board on the remuneration packages of the Directors and the senior management of the Company, with the Board retaining the final authority to approve the remuneration packages of such individuals.

B.2.1. Duties of the Remuneration Committee

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board, in consultation with the Chairman of the Board, on an appropriate policy and framework for all aspects of remuneration of all Directors and senior management of the Company, including but not limited to Directors' fees, salaries, allowances, bonuses, share options, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.

B.2.2. Work Performed by the Remuneration Committee

The Remuneration Committee held two meetings during the Year to discuss the Company's remuneration-related matters. All members of the Remuneration Committee had also deliberated on matters relating to the director's fee of independent non-executive Directors, the remuneration package of, payment of bonuses and grant of share awards to, certain executive Directors and senior management of the Company and the remuneration packages of the Directors newly appointed during the Year. No Director was involved in deciding his own remuneration at the meeting of the Remuneration Committee.

The remuneration of the members of the senior management of the Group by band for the Year is set out below:

Remuneration band	Number of persons
HK$1 to HK$500,000	10
HK$500,001 to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	1

B.3. Nomination Committee

On 19 June 2017, the Board established the Nomination Committee which currently comprises five members, including an executive Director, Mr. Chang Yoe Chong Felix (Chairman) and four independent non-executive Directors, namely Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, Dr. Yung Bruce Pak Keung and Mr. Szeto Yuk Ting.

B.3.1. Duties of the Nomination Committee

The principal duties of the Nomination Committee include reviewing the composition of the Board, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

The Company and the Nomination Committee commit to selecting the best person for the role as Director. In assessing the composition of the Board, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Board diversity policy adopted by the Company, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Company has adopted a policy for the nomination of Directors, which sets out the procedures as well as the process and criteria for nomination and appointment of a new Director and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business.

The Nomination Committee should, upon receipt of the proposal on appointment of a new Director and his/her biographical information, evaluate such candidate based on the criteria as set out in the nomination policy to determine whether such candidate is qualified for directorship. If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company and reference check of each candidate. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out in the nomination policy to determine whether such candidate is qualified for directorship.

To ensure that a newly appointed Director will have a proper understanding of the operations and business of the Company and is fully aware of his/her responsibilities under all applicable laws and regulations (including the Listing Rules), he/she will be provided with a comprehensive, tailored made and formal induction on the first occasion of his/her appointment.

B.3.2. Work Performed by the Nomination Committee

The Nomination Committee held two meetings during the Year to review the size and composition of the Board and the independence of the independent non-executive Directors, identify any new Board member and make recommendation on the re-election of the retiring Directors at the 2019 annual general meeting.

C. ATTENDANCE RECORD AT MEETINGS

During the Year, eight Board meetings, two meetings of the Audit Committee, two meetings of the Remuneration Committee, two meetings of the Nomination Committee and two general meetings of the Company were held. Attendance of individual Directors at such meetings are as follows:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	General Meetings
Number of meetings	8	2	2	2	2
Executive Directors					
Mr. Chang Yoe Chong Felix *(Chairman and Chief Executive Officer)*	5	N/A	1	1	1
Mr. Kwok Yau Lung Anthony *(Chief Operating Officer)*	5	N/A	N/A	N/A	2
Mr. Chan Kwok Keung	1	N/A	N/A	N/A	0
Mr. Hui Wing Ki	1	N/A	N/A	N/A	0
Ms. Jia Ziying	1	N/A	N/A	N/A	0
Mr. Li Yanbo	1	N/A	N/A	N/A	0
Non-executive Directors					
Mr. Chan Lau Yui Kevin	4	N/A	N/A	N/A	0
Mr. Chan Hoi Sing Harold	6	N/A	N/A	N/A	1
Independent Non-executive Directors					
Mr. Lau Ip Keung Kenneth	4	0	1	1	0
Mr. Sin Hendrick	6	2	2	2	0
Dr. Yung Bruce Pak Keung	7	1	2	2	1
Mr. Szeto Yuk Ting	6	2	2	2	0
Ir. Cheung Siu Wa (appointed on 18 February 2019)	4	N/A	N/A	N/A	1

Directors are consulted to include matters in the agenda for regular Board meetings.

Dates of regular Board meetings are scheduled at least 14 days in advance to provide sufficient notice to give all Directors an opportunity to attend. For all other Board meetings, a reasonable period of notice will be given.

Directors have access to the advice and services of the company secretary of the Company to ensure that Board procedures and all applicable rules and regulations are followed.

Minutes of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee are kept by the company secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee have recorded in sufficient detail the matters considered by the Board and the committees, decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of such minutes would be sent to all Directors for their comments and records.

D. ACCOUNTABILITY AND AUDIT

D.1. Financial Reporting

The Directors acknowledge that they are responsible for overseeing the preparation of the financial statements which give a true and fair view of the financial position of the Group and of the financial performance and cash flows for such reporting period. In doing so, the Directors select suitable accounting policies and apply them consistently and make accounting estimates that are appropriate in the circumstances. With the assistance of the accounting and finance staff, the Directors ensure that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

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.

More detailed descriptions of the changes in accounting policies (if any) and the related financial impacts are included in the audited consolidated financial statements of the Group for the Year.

D.2. Independent Auditor's Reporting

The statement by the Independent Auditor about its reporting and auditing responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this annual report.

D.3. Independent Auditor's Remuneration

The fees in respect of the audit and non-audit services provided to the Group by the Independent Auditor for the Year amounted to approximately HK$1.4 million and HK$0.6 million, respectively. The non-audit services mainly consisted of tax assessment review and interim review of the Group for the Year.

E. INTERNAL CONTROLS AND RISK MANAGEMENT REPORT

The Board is directly responsible for risk management and the internal control systems of the Group and reviewing their effectiveness. The systems are designed for the Group to identify and manage significant risks to achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The systems are designed to manage rather than to eliminate the risk of failure in order to achieve the business objectives of the Group, and can only serve as reasonable, but not absolute, assurance against material misstatement or loss. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design and implementation and the overall effectiveness of risk management and internal control systems. The Board conducts and reviews the effectiveness of such systems on an annual basis through the Audit Committee which is responsible for all material controls, including financial, operational and compliance controls.

The Board has adopted a comprehensive risk management policy to identify, evaluate and manage significant risks. The Group can thereby identify risks which might adversely affect the achievement of the Group's objectives, and assess as well as prioritise the level of risk, in order to draw up risk mitigation plans which can then be established to respond to such significant risks.

The Company had an internal function to conduct internal control on certain significant areas of the Group during the Year. In addition, the Group has engaged the Independent Advisor to provide internal audit services, which assisted the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. The Board, through the Audit Committee, has also reviewed the adequacy of the Group's resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

An internal control and risk management report would be submitted to the Audit Committee and the Board of Directors at least once a year. During the Year, the Board, through the Audit Committee, conducted an annual review on the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls and risk management functions, including but not limited to the Group's ability to cope with its business transformation and changing external environmental in terms of significant risks, the scope and quality of management's ongoing monitoring of risks and of the internal controls systems and results of internal audit work, the extent and frequency of communication of monitoring results to the Board in relation to the result of risk and internal control review, significant control failing or weakness having been identified and their related implications, and status of compliance with the Listing Rules. The Board is of the opinion that the Group's risk management and internal control systems were adequate and effective throughout the Year.

F. HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has put in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The inside information policy also provides guidelines to employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory and Listing Rules disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.

G. COMPANY SECRETARY

Ms. Leung Pui Yee, an employee of the Company, has been appointed as the company secretary of the Company. During the Year, Ms. Leung has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

H. COMMUNICATION WITH SHAREHOLDERS

H.1. Effective Communication

On 19 June 2017, the Board adopted a shareholders' communication policy reflecting mostly the current practices of the Company for communication with its shareholders. Such policy aims at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. It will be reviewed regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Company has established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Company's website at www.epfhk.com and the Stock Exchange's website at www.hkexnews.hk;

(ii) periodic announcements are made through the Stock Exchange and published on websites of the Company and the Stock Exchange, respectively;

(iii) corporate information is made available on the Company's website and the articles of association of the Company is made available on websites of the Company and the Stock Exchange, respectively;

(iv) annual general meetings and other general meetings of the Company provide a forum for the shareholders to make comments and exchange views with the Directors and senior management of the Company; and

(v) the Company's share registrar serves the shareholders in respect of share registration, dividend payment, change of shareholders' particulars and related matters.

On 17 May 2019, the annual general meeting was held, at which the Board and the chairmen of the Audit Committee and the Remuneration Committee were present to answer questions from shareholders.

The Chairman of the Board and the chairmen of the Audit Committee and the Remuneration Committee shall attend the upcoming annual general meeting of the Company to answer questions from shareholders.

H.2. Procedures for Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 64 of the articles of association of the Company, one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company and having the right of voting at general meetings may make a requisition to convene an extraordinary general meeting by a written requisition to the Board or the company secretary either via mail to the Company's principal place of business in Hong Kong at 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong or at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or via email to info2@epfhk.com. Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within 21 days of such deposit, the requisitionist(s) himself/themselves may do so in the same manner.

H.3. Procedures for Putting Forward Proposals at General Meetings

Any shareholder who wishes to put forward proposals at a general meeting of the Company shall submit such proposals to the Board in writing for the Board's consideration either via mail to the Company's principal place of business in Hong Kong at 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong or at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or via email to info2@epfhk.com not less than seven days prior to the date of the general meeting.

H.4. Procedures for Proposing a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures titled "Procedures for Shareholders to Propose a Director" made available under the section headed "Investor Relations – Corporate Governance" in the Company's website at www.epfhk.com.

H.5. Procedures for Putting Forward Enquiries to the Board

To put forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will normally not deal with verbal or anonymous enquiries.

Address: 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong, for the attention of the Board of Directors/Company Secretary

Email: info2@epfhk.com

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

I. CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the Year.

J. INVESTOR RELATIONS

The Company keeps on promoting good investor relations and enhancing communication with its shareholders and potential investors in order to understand the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company welcomes suggestions from investors, stakeholders and the public who may contact the Company by phone on (852) 2427 5468 during normal business hours, by fax at (852) 2420 3938 or by e-mail at info2@epfhk.com.

Report of the Directors

The Directors present their report and the audited consolidated financial statements ("**Consolidated Financial Statements**") of the Group for the Year.

PRINCIPAL ACTIVITIES

During the Year, the principal activities of the Group included the manufacturing and trading of hair products. There were no significant changes in the nature of the Group's principal activities during the Year and up to the date of this report.

Particulars of the Company' principal subsidiaries as at 31 December 2019 are set out in note 42 to the Consolidated Financial Statements.

BUSINESS REVIEW AND OUTLOOK

A fair review of the business of the Group including a discussion and analysis of the Group's performance during the Year and the material factors underlying its financial performance and financial position as well as an indication of likely future development in the Group's business as required by section 388(2) and Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) can be found in the section headed "Management Discussion and Analysis" of this annual report. The financial risk management objectives and policies of the Group are set out in note 38 to the Consolidated Financial Statements.

RESULTS AND DIVIDENDS

Details of the consolidated profit of the Group for the Year and the Group's financial position as at 31 December 2019 are set out in the Consolidated Financial Statements and their accompanying notes on pages 101 to 185.

The Board has recommended the payment of a final dividend of HK2.0 cents per Share for the Year, totalling approximately HK$13.2 million based on a total of 661,082,000 Shares in issue as at the date of this annual report, plus the interim dividend of HK1.0 cent per Share already declared and paid, making a total dividend is HK3.0 cents per shares (2018: final dividend of HK2.5 cents per Share and interim dividend of HK$4.2 cents per Share).

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**") on payment of dividends. The objectives of the Dividend Policy are to allow shareholders of the Company to participate in the Company's profits and to attract potential investors whilst retaining adequate reserves for the Group's future growth.

The Board shall consider the following factors of the Group before declaring or recommending dividends:

- financial results;
- shareholders' interests;
- general business conditions and strategies;
- capital requirements;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

The Company intends distribute no less than 20% of its net distributable profits as dividends to its shareholders for each financial year, subject to the conditions and factors as set out above.

The Board will review the Dividend Policy, as appropriate, to ensure its effectiveness from time to time.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results can be categorised into the following areas: (i) risks relating to the Group's business and industry; (ii) risks relating to conducting business in Bangladesh; and (iii) risks relating to conducting business in the PRC, as described below:

RISKS WITH REGARD TO LABOUR SUPPLY, INCREASED LABOUR COSTS AND OTHER FACTORS AFFECTING LABOUR SUPPLY FOR THE GROUP'S PRODUCTION

The manufacturing of hair goods is labour intensive. Labour supply is key to being able to ensure the quality of the Group's products. The Group's performance relies on the steady supply of skilled and low-cost labour in Bangladesh and the PRC. The Group's direct labour costs accounted for approximately 48.9% of its total cost of goods sold for the Year (2018: 43.1%). Labour costs are primarily affected by the demand for and supply of labour, laws and regulations governing the industries operating inside the export processing zones, and other economic factors such as the rate of inflation and standard of living. Labour costs may increase due to a shortage of skilled labour or growing industry demands for skilled workers. There is no assurance that supply of skilled workers would not be disrupted or that labour costs would not increase. As such, the Group is subject to the risks associated with labour supply and its respective costs.

RISKS WITH REGARD TO HIGHLY COMPETITIVE INDUSTRY AND COMPETITION AMONG COMPETITORS

The industry in which the Group operates is highly competitive and fragmented. Competitive factors include product quality, price, design and development capability, timely delivery, valuable service, scale and capacity, and efficiency. The Group faces competition from existing and new players in the hair goods industry worldwide, including numerous manufacturers in the PRC and Indonesia which offer similar hair goods at lower prices than it does, as well as other enterprises which offer an increasing number of related products which could be used as substitutes for the Group's products. The Group's competitors conduct operations in Indonesia, Bangladesh, Cambodia or other developing countries where labour costs are relatively lower, and as a result they may adopt more competitive pricing strategies and achieve greater scales of production at lower production costs. In addition, margin pressure could arise from, among other factors, limited demand growth and overcapacity in a relevant market, price reductions by competitors, new industry players, industry consolidation, and the ability of competitors to capitalise on their economies of scale and create excess product supply.

Moreover, the entry barriers to the hair goods industry are relatively low as hair goods do not require advanced technology to produce and a small amount of production of these products does not require intensive capital investment. The Group therefore faces intense domestic and foreign competition in terms of production and sales. In the overseas market, enterprises located in central and southern Asian regions where hair goods may be commonly produced (for example, India and Pakistan) have been very competitive in terms of cost as there are cheap and abundant supplies of labour. In response to increasing labour and rental costs in the PRC, some PRC manufacturers are shifting their manufacturing bases from the PRC to various Asian countries such as Indonesia and Bangladesh.

To compete effectively, the Group may be forced, among other actions, to reduce prices, provide more sales incentives to customers and increase capital expenditures in the Group's labour force, plant, property and equipment. Any or a combination of these events may reduce the Group's profitability which could, in turn, adversely affect the Group's business, financial condition, results of operations and prospects. Any intensification of the competition or failure by us to compete successfully with the Group's competitors could have an adverse impact on the demand for, and pricing of, the Group's products, and as a result, could result in a reduction of the Group's market share and have an adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS WITH REGARD TO SIGNIFICANT RELIANCE ON SALES IN THE UNITED STATES AND OTHER INTERNATIONAL MARKETS

A significant portion of the Group's revenue is derived from international markets, in particular, the United States. For the Year, the Group derived 97.7% (2018: 93.0%) of the Group's revenue from outside the PRC and derived 78.5% (2018: 81.2%) of the Group's revenue from sales to the United States. As the Group relies heavily on international sales and sales to the United States, the economic conditions of these regions have had and will continue to have a significant impact on the Group's sales and business. Any significant downturn in the global economy and particularly in the local economies of the United States could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS WITH REGARD TO FAILURE ON DESIGN, RESEARCH AND DEVELOPMENT OF NEW HAIR GOODS AND LOSE THE GROUP'S COMPETITIVENESS

The sales of hair goods to a specific sales market are subject to several factors, including consumers' taste, design, fashion trends and usage. There may be changes in fashion trends and consumers may have a change in preference towards certain hair goods in the future. The Group's future success depends upon the ability to address the changes in consumer trends by developing and introducing new and innovative products on a timely basis and in accordance with changing demands. The Group's market research regarding the latest trends of hair goods may be inaccurate, or the Group may fail to appreciate the change in customer preferences.

RISKS WITH REGARD TO FAILURE TO FULLY IMPLEMENT THE GROUP'S EXPANSION PLANS IN BANGLADESH

The Group intends to expand its production capacity by investing in new production facilities and upgrading existing facilities in Bangladesh. The Group has commenced the construction of a bleaching and dyeing complex in Bangladesh, the first phase of which was completed during the Year. The Group also has plans to construct and complete a total of two new production facilities in Bangladesh by the end of 2020.

The Group's growth and future success will be dependent upon, among other factors, the successful completion of proposed expansion plans and sufficient demand for the Group's products. The upgrade or construction of any of the Group's production facilities may be adversely affected by delays and cost overruns. Factors that may contribute to delays and cost overruns with respect to the Group's expansion or upgrade include increased costs of land acquisition in Bangladesh, increases in the cost of, or inability to secure, financing, risks relating to construction, changes in safety and/or environmental requirements, delay or failure in obtaining necessary government approvals, changes in general economic conditions in Bangladesh, adverse weather conditions, natural disasters, accidents, unanticipated changes in government policies and other unforeseen circumstances and problems. A significant delay in the completion of these projects or a material increase in the costs of these projects could adversely affect the competitive advantage that we hope to achieve by undertaking such projects and may also divert the Group's resources away from the Group's other business operations.

RISKS WITH REGARD TO ANY DISRUPTION IN SUPPLIERS' SUPPLY THAT COULD HAVE AN ADVERSE EFFECT ON THE GROUP'S BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PROSPECTS

The Group's five largest suppliers collectively supplied raw materials comprising 42.6% (2018: 36.9%) of the Group's cost of goods sold during the Year. The Group's largest supplier supplied raw materials comprising 35.7% (2018: 27.5%) of the Group's cost of goods sold. Some of the synthetic fibres that the Group uses in the manufacturing of products are not able to be readily sourced from other suppliers. If there is any decrease or disruption in supply or an increase in prices by one or more of the Group's major suppliers, particularly the Group's largest supplier, or any termination of the Group's business relationships with the Group's major suppliers and any failure to find replacement suppliers on similar or favourable terms in a timely manner, the Group's business, results of operations, financial condition and prospects could be adversely affected.

In general, the Group does not enter into any long-term supply agreements, which exposes the Group to uncertainty and potential volatility with respect to the Group's costs of raw materials and supply of raw materials. The prices of most of the Group's raw materials generally follow the price trends of, and vary with, prevailing market conditions. There is no assurance that the Group can continue to secure adequate supplies of raw materials at a competitive cost level to meet its production requirements. If the Group experiences any interruption, reduction or termination in supply of raw materials from its suppliers, or is unable to find a substitute material to meet the Group's production schedule or to produce or at all, the Group might not be able to have a stable and adequate supply of raw materials needed for the production of its products.

RISKS WITH REGARD TO POTENTIAL FINANCIAL DIFFICULTIES IF THE GROUP FAILS TO MAINTAIN SUFFICIENT WORKING CAPITAL

As at 31 December 2019, the Group recorded net cash from operating activities of HK$49.0 million (2018: net cash from operating activities of HK$83.8 million) and net cash from financing activities of HK$103.0 million (2018: HK$63.0 million). During the Year, the Group had used net cash of HK$184.4 million (2018: HK$166.9 million) in its investing activities. The Group had total bank borrowings and bank overdrafts of HK$718.8 million (2018: HK$646.8 million), out of which HK$658.6 million (2018: HK$547.0 million) will be due within one year. Also, the Group had cash and cash equivalents of HK$36.1 million (2018: HK$68.9 million) and unutilised bank credit facilities of HK$10.9 million (2018: HK$42.4 million). While the Group has in the past financed its working capital needs primarily with cash generated from operating activities and borrowings, there is no assurance that the Group will always be able to generate net cash from operating activities or that banking facilities or other loans will always be available to it on commercially acceptable terms, or at all. Even if the Group is able to obtain new borrowings, any increased level of indebtedness could have a negative impact on the Group's business. For example, any increase in finance expenses could lower the Group's profitability, and the banking facilities that the Group may enter into may contain covenants limiting its flexibility in planning for, or reacting to, changes in its business. The Group may even be in breach of certain covenants in existing bank facilities by increasing its level of indebtedness.

RISKS WITH REGARD TO CONDUCTING BUSINESS IN BANGLADESH

The Group's principal manufacturing capacities are currently housed in the Bangladesh Factory. As at 31 December 2019, the Group had a total of 21,634 employees (2018: 18,015 employees) in Bangladesh. The Group intends to continue to expand its production capacity and increase the scope of operations in Bangladesh. Operating in developing countries exposes the Group to risks associated with regional, political and economic instabilities that could have a disproportionately negative effect on the Group's business, financial condition, results of operations and prospects.

The application of the laws in emerging-market countries such as Bangladesh is not always clear or consistent. The legislative drafting has not always kept pace with the demands of the marketplace, which can make it difficult to ensure that the Group is in compliance with changing legal requirements. Moreover, the government has the broad discretion in the grant of its licences and permits, including revocation for public interests. In addition, regulations are often introduced that require the Group to implement changes that are costly and technologically challenging. The regulators responsible for the control and supervision of communications services in Bangladesh frequently check the Group's compliance with the requirements of the applicable regulations. The Group may incur significant costs in implementing such compliance.

Corruption and poor governance in Bangladesh have historically been a hindrance to the Bangladesh government's ability to attract foreign investment and to reduce poverty. Failure of the Bangladesh government to continue to fight corruption or the perceived risk of corruption in Bangladesh could have an adverse effect on the Bangladesh economy, which may adversely affect the Group's business, financial condition, results of operations and prospects.

RISKS WITH REGARD TO CONDUCTING BUSINESS IN THE PRC

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

As at the date of this report, the Group had substantial operations in the PRC, including production centres in Kunming, Yunnan, production and research and display centres in Nantou, Shenzhen, and processing and dyeing centre in Yuzhou, Henan. Accordingly, the Group's results of operations and prospects are also subject to economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. The PRC's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors may affect the economic conditions in the PRC and, in turn, the Group's business.

INTEREST RATE RISKS

Most of the Group's borrowings are floating-rate bank loans, which expose the Group to rising interest rates. The Group will closely monitor the interest rate risk and when appropriate adopt measures to manage the associated risk, including but not limited to, the issuance of fixed rate bonds, and use of derivatives such as interest rate swaps and management of the ratio of fixed or floating loan portfolio. The Group has entered into a HK$15,000,000 interest rate swap contract to hedge exposure to the fluctuations of floating-rate bank loans on a monthly basis for the period from July 2016 to July 2021. During the Year, the Group had incurred a net loss of approximately HK$70,000 (2018: HK$81,000) from the transactions under the contract.

CURRENCY RISKS

Please refer to the section headed "Management Discussion and Analysis – Liquidity and Financial Resources – Currency Risks" in this annual report.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. CHANG Yoe Chong Felix *(Chairman and Chief Executive Officer)*
Mr. KWOK Yau Lung Anthony *(Chief Operating Officer)*
Mr. CHAN Kwok Keung
Mr. HUI Wing Ki
Ms. JIA Ziying
Mr. LI Yanbo

NON-EXECUTIVE DIRECTORS

Mr. CHAN Lau Yui Kevin
Mr. CHAN Hoi Sing Harold

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Ip Keung Kenneth
Mr. SIN Hendrick
Dr. YUNG Bruce Pak Keung
Mr. SZETO Yuk Ting
Ir. CHEUNG Siu Wa (appointed on 18 February 2019)

In accordance with article 108 of the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. By virtue of article 108 of the articles of association of the Company, Mr. Chan Kwok Keung, Mr. Li Yanbo, Mr. Chan Hoi Sing Harold, Mr. Lau Ip Keung Kenneth and Mr. Sin Hendrick will retire from office and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

Changes in information of the Directors since the publication of the interim report of the Company for the six months ended 30 June 2019, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- Mr. Sin Hendrick became an executive director of CMGE Technology Group Limited on 25 April 2018, a company listed on the Stock Exchange (stock code: 0302) since 31 October 2019.

- Mr. Szeto Yuk Ting became an independent non-executive director of Wise Ally International Holdings Limited on 10 December 2019, a company listed on the Stock Exchange (stock code: 9918) since 10 January 2020.

- The remuneration of Mr. Kwok Yau Lung Anthony, an executive Director, has been increased from HK$802,000 to HK$838,000 with effect from 26 March 2020.

- The remuneration of Mr. Chan Kwok Keung, an executive Director, has been increased from HK$1,117,000 per year to HK$1,168,000 per year with effect from 26 March 2020.

- The remuneration of Mr. Hui Wing Ki, an executive Director, has been increased from HK$720,000 per year to HK$752,000 per year with effect from 26 March 2020.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation in writing of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, as at the date of this report, all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the AGM has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees and other emoluments are supervised by the Remuneration Committee and determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in note 12 to the Consolidated Financial Statements.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The articles of association of the Company provide that the Directors or other officers of the Company are entitled to be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 37 headed "Related Party Transactions" to the Consolidated Financial Statements, no Director nor an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

MANAGEMENT CONTRACTS

No contract of significance concerning the management and administration of the whole or any substantial part of business of the Company or any of its subsidiaries was entered into or subsisted during the Year.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the Year was the Company or any of its subsidiaries, the holding company, a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS OF SUBSIDIARIES

Other than the Directors named in the section headed "Biographical Details of Directors and Senior Management" of this annual report, the persons who had served on the boards of the subsidiaries of the Company during the Year and up to the date of this report include Mr. Chan Wing Shing, Mr. Feng Zhi Hui, Mr. Li San Tung, Mr. Hu Jianan, Mr. Li Chao, Mr. Dewan Zakir Hussain, Ms. Loretta Lo, Ms. Francesca Armstrong, Ms. Butsan Oksana Serhiivna, Ms. Sujifra Luangcharoen and Mr. Chan Hau Him Howard.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year and up to the date of this report, none of the Directors is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

Each of the controlling shareholders of the Company, namely, Mr. Chang Chih Lung, Mr. Chang Yoe Chong Felix, FC Management Limited, FC Investment Worldwide Limited, CLC Management Limited, CLC Investment Worldwide Limited, Golden Evergreen Limited and Evergreen Enterprise Holdings Limited, has confirmed to the Company his/its compliance with the non-competition undertakings given to the Company under the Deed of Non-competition as defined in the prospectus of the Company dated 29 June 2017.

SHARE OPTION SCHEME

On 19 June 2017 (the "**Adoption Date**"), a share option scheme (the "**Share Option Scheme**") was adopted by the Company. The following is a summary of the principal terms of the rules of the Share Option Scheme:

PURPOSE OF THE SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

WHO MAY JOIN AND BASIS OF ELIGIBILITY

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his/her contribution or potential contribution to the development and growth of the Group.

PRICE OF SHARES

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is offered, which must be any day on which the Stock Exchange is open for the business of dealings in securities ("**Business Day**"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date on which the option is offered; and (iii) the nominal value of a Share on the date on which the option is offered.

MAXIMUM NUMBER OF SHARES AVAILABLE FOR ISSUE UNDER THE SHARE OPTION SCHEME

The maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all the Shares in issue as at the date on which the Shares were listed and permitted to be dealt in the Stock Exchange (i.e. 12 July 2017) (the "**Listing Date**"), i.e. 61,500,000 Shares.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 61,500,000 Shares, representing approximately 9.30% of the Company's issued share capital as at the date of this report.

MAXIMUM ENTITLEMENT OF EACH PARTICIPANT UNDER THE SHARE OPTION SCHEME

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue unless otherwise approved by the shareholders in general meeting.

TIME OF EXERCISE OF AN OPTION

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date on which the option is offered subject to the provisions of early termination thereof.

MINIMUM PERIOD FOR WHICH AN OPTION MUST BE HELD BEFORE IT CAN BE EXERCISED

There is no minimum period for which an option must be held before it can be exercised; however, the Board may, subject to the provisions of the Listing Rules, in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as it may think fit.

AMOUNT PAYABLE ON APPLICATION OR ACCEPTABLE OF AN OPTION

Participants of the Share Option Scheme are required to pay the Company a nominal consideration of HK$1.00 upon acceptance of the grant within seven days from the offer date.

BASIS OF DETERMINING THE EXERCISE PRICE

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is offered, which must be a Business Day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date on which the option is offered; and (iii) the nominal value of a Share on the date on which the option is offered.

LIFE OF THE SHARE OPTION SCHEME

The Share Option Scheme will remain in force for a period of 10 years commencing on the Adoption Date and shall expire at the close of business on a Business Day immediately preceding the tenth anniversary thereof.

As at the date of this report, the remaining life of the Share Option Scheme is about eight years and two months.

During the Year, no option has been granted or agreed to be granted under the Share Option Scheme.

SHARE AWARD SCHEME

On 11 December 2017, the Company adopted the Share Award Scheme in which employees of the Group will be entitled to participate.

The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules.

The Share Award Scheme will remain in force for a period of 10 years commencing on its adoption date. The maximum number of Shares issuable pursuant to the Share Award Scheme is 6,150,000 Shares, being 1% of the total issued Shares on its adoption date. Details of the Share Award Scheme are set out in the announcement of the Company dated 11 December 2017.

Since the adoption date of the Share Award Scheme and up to 31 December 2019, a total of 5,333,334 Shares, representing approximately 0.81% of the total issued Shares as at 31 December 2019, were granted by the Company to certain Directors, senior management and employees of the Company. During the Year, 1,735,000 awarded Shares were vested in the name of the selected employees under the Share Award Scheme.

As at 31 December 2019, the trustee of the Share Award Scheme held a total of 2,266,000 Shares, of which 2,194,667 Shares remained unvested and 71,333 Shares remained ungranted or lapsed. The ungranted or lapsed Shares remain as trust fund and will be used for grant of share awards in future.

Details of the movement in the Shares under the Share Award Scheme during the Year are as follows:

		Number of Shares				
Date of grant	Grantees	Outstanding as at 31 December 2018	Vested during the Year	Lapsed during the Year	Outstanding as at 31 December 2019	Vesting schedule
16 January 2018	Mr. Chan Kwok Keung	750,000	250,000	–	500,000	To vest on 13 July of each year from 2018 to 2021
	Mr. Kwok Yau Lung Anthony	222,333	111,000	–	111,333	
	Mr. Hui Wing Ki	222,333	111,000	–	111,333	
	Ms. Jia Ziying	267,000	133,000	–	134,000	
	Mr. Li Yanbo	100,000	50,000	–	50,000	
	Other grantees	2,434,668	1,080,000	66,667	1,288,001	
	Total	3,996,334	1,735,000	66,667	2,194,667	

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests or short positions of the Directors and chief executives' of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

LONG POSITION IN THE SHARES OF THE COMPANY

Name of Director/chief executive	Capacity/nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company[9]
Mr. Chang Yoe Chong Felix	(i) Beneficiary of a trust/ Founder of a discretionary trust	353,257,803[1]	53.44%
	(ii) Beneficial owner	9,790,600[2]	1.48%
Mr. Chan Kwok Keung	Beneficial owner	1,000,000[3]	0.15%
Mr. Kwok Yau Lung Anthony	Beneficial owner	333,333[4]	0.05%
Mr. Hui Wing Ki	Beneficial owner	223,333[5]	0.03%
Ms. Jia Ziying	(i) Beneficial owner	394,000[6]	0.06%
	(ii) Interest of spouse	100,000[8]	0.02%
Mr. Li Yanbo	(i) Beneficial owner	100,000[7]	0.02%
	(ii) Interest of spouse	394,000[8]	0.06%

Notes:

(1) These Shares are held directly by Evergreen Enterprise Holdings Limited ("**Evergreen Holdings**"), a direct wholly owned subsidiary of Golden Evergreen Limited ("**Golden Evergreen**"). 49% and 51% of the issued share capital of Golden Evergreen are owned by FC Investment Worldwide Limited ("**FC Investment**") (a direct wholly owned subsidiary of FC Management Limited ("**FC Management**")) and CLC Investment Worldwide Limited ("**CLC Investment**") (a direct wholly owned subsidiary of CLC Management Limited ("**CLC Management**")), respectively. FC Management is directly and wholly owned by HSBC International Trustee Limited as the trustee of a discretionary trust established on 17 February 2010 by Mr. Chang Yoe Chong Felix as the settlor for the benefit of Mr. Chang Chih Lung, Mr. Chang Ka Wai Aidan and Mr. Chang Yoe Chong Felix's issue (the "**Felix Family Trust**"). CLC Management is directly and wholly owned by HSBC International Trustee Limited as the trustee of a discretionary trust established on 9 July 2013 by Mr. Chang Chih Lung as the settlor for the benefit of Mr. Chang Yoe Chong Felix and his issue (the "**CLC Family Trust**"). Accordingly, each of Mr. Chang Chih Lung and Mr. Chang Yoe Chong Felix is deemed to be interested in the Shares which are interested by HSBC International Trustee Limited under the SFO.

(2) These Shares are beneficially owned by Mr. Chang Yoe Chong Felix.

(3) These Shares were granted by the Company to Mr. Chan Kwok Keung on 16 January 2018 pursuant to the Share Award Scheme.

(4) These Shares were granted by the Company to Mr. Kwok Yau Lung Anthony on 16 January 2018 pursuant to the Share Award Scheme.

(5) These Shares were granted by the Company to Mr. Hui Wing Ki on 16 January 2018 pursuant to the Share Award Scheme.

(6) These Shares were granted by the Company to Ms. Jia Ziying on 16 January 2018 pursuant to the Share Award Scheme.

(7) These Shares were granted by the Company to Mr. Li Yanbo on 16 January 2018 pursuant to the Share Award Scheme.

(8) Ms. Jia Ziying is the spouse of Mr. Li Yanbo. As such, Ms. Jia Ziying and Mr. Li Yanbo are deemed to be interested in each other's interest.

(9) Based on a total of 661,082,000 issued Shares as at 31 December 2019.

LONG POSITION IN THE SHARES OF THE ASSOCIATED CORPORATIONS OF THE COMPANY

Name of Director/ chief executive	Name of our associated corporations	Capacity/nature of interest	Number of shares interested	Approximate percentage of shareholding
Mr. Chang Yoe Chong Felix[3]	Evergreen Holdings[1]	Beneficiary of a trust/ Founder of a discretionary trust	20,000	100%
Mr. Chang Yoe Chong Felix[3]	Golden Evergreen[1]	Beneficiary of a trust/ Founder of a discretionary trust	100	100%
Mr. Chang Yoe Chong Felix[3]	CLC Investment[1]	Beneficiary of a trust	2	100%
Mr. Chang Yoe Chong Felix[3]	CLC Management[1]	Beneficiary of a trust	2	100%
Mr. Chang Yoe Chong Felix[3]	Evergreen Group Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	100,000,000	73.04%
Mr. Chang Yoe Chong Felix[3]	Ventures Day Investments Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	100	100%
Mr. Chang Yoe Chong Felix[3]	Acemaster Ventures Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	1	100%
Mr. Chang Yoe Chong Felix[3]	Cowden Ventures Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	1	100%
Mr. Chang Yoe Chong Felix[3]	Fast Track Ventures Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	1	100%
Mr. Chang Yoe Chong Felix[3]	Golden Image Ventures Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	1	100%
Mr. Chang Yoe Chong Felix[3]	Market Focus Ventures Limited[2]	Beneficiary of a trust/ Founder of a discretionary trust	1	100%

Name of Director/ chief executive	Name of our associated corporations	Capacity/nature of interest	Number of shares interested	Approximate percentage of shareholding
Mr. Chang Yoe Chong Felix(3)	Punchline Ventures Limited(2)	Beneficiary of a trust/ Founder of a discretionary trust	1	100%
Mr. Chang Yoe Chong Felix(3)	Smart Plus Ventures Limited(2)	Beneficiary of a trust/ Founder of a discretionary trust	1	100%
Mr. Chang Yoe Chong Felix(3)	Eastern Earnings (China) Company Limited(4)	Beneficiary of a trust/ Founder of a discretionary trust	1,000,000	100%
Mr. Chang Yoe Chong Felix(3)	Sunleaf Holdings Limited(4)	Beneficiary of a trust/ Founder of a discretionary trust	7,000	70%
		Interest of controlled corporation(5)	3,000	30%
Mr. Chang Yoe Chong Felix(3)	Loyal Helper Supply Limited(4)	Founder of a discretionary trust	100	100%
Mr. Chang Yoe Chong Felix(3)	Evergreen Housekeepers Training Center Limited(4)	Founder of a discretionary trust	999	99%

Notes:

(1) Evergreen Holdings, a direct wholly owned subsidiary of Golden Evergreen, holds more than 50% of the issued share capital of the Company. 49% and 51% of the issued share capital of Golden Evergreen are owned by FC Investment (a direct wholly owned subsidiary of FC Management) and CLC Investment (a direct wholly owned subsidiary of CLC Management), respectively. Accordingly, each of Evergreen Holdings, Golden Evergreen, CLC Investment and CLC Management is a holding company and an associated corporation of the Company.

(2) Approximately 73.04% of the issued share capital of Evergreen Group Limited is owned by Evergreen Holdings. Evergreen Group Limited holds the entire issued share capital of Ventures Day Investments Limited. Ventures Day Investments Limited holds the entire issued share capital of each of Acemaster Ventures Limited, Cowden Ventures Limited, Fast Track Ventures Limited, Golden Image Ventures Limited, Market Focus Ventures Limited, Punchline Ventures Limited and Smart Plus Ventures Limited. Accordingly, each of Evergreen Group Limited, Ventures Day Investments Limited, Acemaster Ventures Limited, Cowden Ventures Limited, Fast Track Ventures Limited, Golden Image Ventures Limited, Market Focus Ventures Limited, Punchline Ventures Limited and Smart Plus Ventures Limited is a subsidiary of Evergreen Holdings and an associated corporation of the Company.

(3) Each of FC Management and CLC Management is directly and wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and the CLC Family Trust. The CLC Family Trust is a discretionary trust established by Mr. Chang Chih Lung (the father of Mr. Chang Yoe Chong Felix and a controlling shareholder and a substantial shareholder of the Company as at 31 December 2019) as the settlor, with Mr. Chang Yoe Chong Felix and his issue being the beneficiaries. The Felix Family Trust is a discretionary trust established by Mr. Chang Yoe Chong Felix as the settlor, with Mr. Chang Chih Lung, Mr. Chang Ka Wai Aidan (the son of Mr. Chang Yoe Chong Felix and a minor) and Mr. Chang Yoe Chong Felix's issues being the beneficiaries. Accordingly, Mr. Chang Yoe Chong Felix is deemed to be interested in the above associated corporations of the Company under the SFO.

(4) Each of Loyal Helper Supply Limited and Evergreen Housekeepers Training Center Limited is 100% owned by Sunleaf Holdings Limited, which is 70% owned by Eastern Earnings (China) Company Limited. Eastern Earnings (China) Company Limited is 51% owned by FC Investment, which is 100% held by FC Management. Accordingly, Mr. Chang Yoe Chong Felix is deemed to be interested in the above associated corporations of the Company under the SFO.

(5) Such shares are held by Prince Orchid Limited, which is 100% owned by Mr Chang Yoe Chong Felix.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2019, none of the Directors or the chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests 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 entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 31 December 2019, the following corporations/persons had interests of 5% or more in the issued Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

LONG POSITION IN THE SHARES OF THE COMPANY

Name of shareholder	Capacity/nature of interest	Number of Shares	Approximately percentage of issued share capital of the Company[4]
Evergreen Holdings[1]	Beneficial owner	353,257,803	53.44%
Golden Evergreen[1]	Interest of controlled corporation	353,257,803	53.44%
FC Investment[1]	Interest of controlled corporation	353,257,803	53.44%
FC Management[1]	Interest of controlled corporation	353,257,803	53.44%
CLC Investment[1]	Interest of controlled corporation	353,257,803	53.44%
CLC Management[1]	Interest of controlled corporation	353,257,803	53.44%
HSBC International Trustee Limited[1]	Trustee of a trust	353,257,803	53.44%
Mr. Chang Chih Lung[1]	Beneficiary of a trust/ Founder of a discretionary trust	353,257,803	53.44%
Ms. Wong Hor Yan[2]	Interest of spouse	363,048,403	54.92%
SEAVI Advent Investments Ltd. (“**SEAVI Advent**”)[3]	Beneficial owner	106,748,197	16.15%
Codan Trust Company (Cayman) Limited[3]	Interest of controlled corporation	106,748,197	16.15%

Notes:

(1) Evergreen Holdings is a direct wholly owned subsidiary of Golden Evergreen. 49% and 51% of issued share capital of Golden Evergreen are owned by FC Investment (a direct wholly owned subsidiary of FC Management) and CLC Investment (a direct wholly owned subsidiary of CLC Management), respectively. Each of FC Management and CLC Management is directly and wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and the CLC Family Trust. Mr. Chang Chih Lung is the settlor of CLC Family Trust and one of the beneficiaries of the Felix Family Trust. Accordingly, each of Golden Evergreen, FC Investment, FC Management, CLC Investment, CLC Management, HSBC International Trustee Limited and Mr. Chang Chih Lung is deemed to be interested in the Shares held by Evergreen Holdings under the SFO.

(2) Ms. Wong Hor Yan is the spouse of Mr. Chang Yoe Chong Felix, and is deemed to be interested in the Shares which are interested by Mr. Chang Yoe Chong Felix under the SFO.

(3) SEAVI Advent is wholly owned by SEAVI Advent Equity V (A) Ltd and is indirectly controlled by Codan Trust Company (Cayman) Limited. Codan Trust Company (Cayman) Limited is therefore deemed to be interested in the Shares held by SEAVI Advent under SFO.

(4) Based on a total of 661,082,000 issued Shares as at 31 December 2019.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2019, the Directors have not been notified by any person who had interests or short position in Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in note 37 headed "Related Party Transactions" to the Consolidated Financial Statements, at no time during the Year had the Company or any of its subsidiaries, and any of the controlling shareholders (as defined in the Listing Rules) of the Company or any of their subsidiaries (as the case may be) entered into any contract of significance or any contract of significance for the provision of services by any such controlling shareholders or their subsidiaries (as the case may be) to the Company or any of its subsidiaries.

CONNECTED TRANSACTION

During the Year, the Group entered into the following connected transaction:

On 20 September 2019, the Company and EEHL entered into a subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and EEHL conditionally agreed to subscribe for 12,902,000 Shares at the subscription price of HK$1.55 per Share. The subscription was completed on 15 November 2019.

As at the date of the subscription agreement, EEHL held approximately 54.78% of the total issued Shares and hence a controlling shareholder of the Company. As such, EEHL was a connected person of the Company under Rule 14A.07(1) of the Listing Rules and the subscription constituted a connected transaction for the Company.

The Company has been exploring various options to raise capital. In the circumstances, the Company considered that the subscription by EEHL was the most efficient way to raise capital in order to maintain a sufficient cash position of the Group to meet its current liabilities and to enhance the capital base of the Company.

Please refer to the section headed "Management Discussion and Analysis" of this annual report for further details of the subscription.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 37 headed "Related Party Transactions" to the Consolidated Financial Statements for the Year constitute de minimis continuing connected transactions of the Company and are fully exempt from the reporting, annual reviews, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Therefore, the Independent Auditor has not been engaged to report on such transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) – "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*". No letter is prepared by the Independent Auditor with reference to Practice Note 740 – "*Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business of the Group during the Year are provided under note 37 to the Consolidated Financial Statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by businesses and geographical areas of the operations for the Year is set out in note 6 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the Consolidated Financial Statements.

SHARES ISSUED IN THE YEAR

Details of the ordinary shares issued by the Company during the Year are set out in note 31 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had reserves available for distribution to the Shareholders of approximately HK$38.9 million.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the initial public offering of approximately HK$204.7 million.

During the period from the Listing Date and up to 31 December 2019, the net proceeds were utilised in accordance with the purpose as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2017.

As at the date of this report, the Group had partially utilised such proceeds in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 29 June 2017:

Use of proceeds	Net proceeds *HK$ million*	Utilised as at the date of this report *HK$ million*	Utilised as at the date of this report *%*
(i) Construction of additional production facilities in the Group's Bangladesh production base	100.7	100.7	100.0%
(ii) Relocation of the Group's research and display centre and sales office in Dongguan, Guangdong	20.5	–	–
(iii) Expansion of the Group's business, including establishing sales offices for high-end human hair extensions in Asia, further development of the Group's e-commerce business, and expansion of the Group's Halloween costume sales	22.1	22.1	100.0%
(iv) Repayment of outstanding trust receipt loans	40.9	40.9	100.0%
(v) Working capital and general corporate purposes	20.5	20.5	100.0%
Total utilisation	204.7	184.2	90.0%

The unutilised net proceeds have been placed with licensed banks as interest-bearing deposits.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float under the Listing Rules during the Year and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2019 are set out in note 27 to the Consolidated Financial Statements.

KEY PERFORMANCE INDICATORS ("KPI")

(i) Gross profit margin

- Definition and calculation: Gross profit margin is derived by dividing gross profit by revenue for a given year.
- Purpose: The Group aims to enhance its gross profit margin. The extent to which this objective has been achieved is assessed by comparing the Group's gross profit margin from one year to the next, as it is an indicator showing the Group's profitability.
- Quantified KPI data: The gross profit margin was approximately 33.1% for the Year (2018: approximately 34.9%).

(ii) Net profit margin

- Definition and calculation: Net profit margin is derived by dividing profit for a given year by revenue for that year.

- Purpose: The Group emphasises cost control. The net profit margin provides direction for a better control and utilisation of expenses. The extent to which this objective has been achieved is assessed by comparing the Group's net profit margin from one year to the next, as it is an indicator showing the Group's earnings from its business operations and other related activities.

- Quantified KPI data: The net profit margin was approximately 11.1% for the Year (2018: approximately 15.1%). The decrease in net profit margin was primarily attributable to: (i) significant increment of minimum wages of workers in Bangladesh since December 2018; (ii) absence of a one-off and non-operating item during the Year as compared with corresponding period in 2018, during which a gain on disposal of two leasehold land and building totalling HK$6.6 million was recognised; and (iii) an increase in net profit arising from the manufacturing and sale of high-margin hair products.

(iii) Gearing ratio and net gearing ratio

- Definition and calculation: Gearing ratio is derived by dividing total interest-bearing debt (including secured bank borrowings, bank overdrafts, obligations under finance leases and any preferred Shares) by total equity as at the end of a given year. Net gearing ratio of the Group is equivalent to total interest-bearing debt (including secured bank borrowings, bank overdrafts, obligations under finance leases and any preferred Shares) net of total cash and bank balances divided by total equity as at the end of a given year.

- Purpose: The Group monitors its capital structure based on gearing ratio. Gearing ratio provides direction for the Group to optimise its financing and business development activities. The extent to which this objective has been achieved is assessed by comparing the Group's gearing ratio from one year to the next, as it is an indicator showing the Group's level of leverage.

- Quantified KPI data: The Group's gearing ratio was approximately 83.0% (2018: 91.0%) and net gearing ratio was approximately 68.1% (2018: 69.4%) for the Year. The decrease in gearing ratio and net gearing ratio for the Year was primarily due to the effect of the placements of new Shares during the Year.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling approximately HK$0.7 million (2018: HK$1.3 million).

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the Group's five largest customers and the largest customer accounted for 66.8% and 30.2%, respectively, of the Group's total revenue for the Year.

Purchases attributable to the Group's five largest suppliers and the largest supplier accounted for 42.6% and 35.7%, respectively, of the Group's total purchases for the Year.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any shareholders of the Company (whom, to the best knowledge and belief of the Directors, own more than 5% of the Company's total issued share capital) had any beneficial interest in the Group's five largest suppliers and customers for the Year.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on it. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Year, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group has implemented internal recycling programme for office consumables such as toner cartridges and paper to minimise the operational impact on the environment and natural resources. The Group will review its environmental practices from time to time and will implement further eco-friendly measures and practices closely enhancing environmental sustainability. For details, please refer to the section headed "Environmental, Social and Governance Report" of this annual report.

RELATIONSHIPS WITH THE GROUP'S EMPLOYEES

The Group believes that employees are important and valuable assets. The Group will provide trainings for employees to enhance their knowledge in corporate values and culture and to implement them thoroughly. Meanwhile, the Group encourages staff on continued studies by giving subsidy to recognised development courses. The Group also aims to provide competitive and attractive remuneration packages to retain its employees. Management reviews annually the remuneration package offered to the employees of the Group. Meanwhile, for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group's operations, the Company has adopted the Share Option Scheme and the Share Award Scheme. Details of such schemes are set out in the sub-sections headed "Share Option Scheme" and "Share Award Scheme" in this report.

RELATIONSHIPS WITH THE GROUP'S CUSTOMERS AND SUPPLIERS

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality products to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers to maintain sustainable growth.

IMPORTANT EVENTS AFTER THE END OF THE YEAR

Details of important events after the end of the Year are set out in note 45 to the consolidated financial statements in this annual report.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this annual report.

EQUITY-LINK AGREEMENT

For the Year, the Company has not entered into any equity-link agreement, save for options that can be granted under the Share Option Scheme. As at 31 December 2019, no option had been granted under the Share Option Scheme.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises four independent non-executive Directors, namely, Mr. Sin Hendrick, Mr. Lau Ip Keung Kenneth, Dr. Yung Bruce Pak Keung and Mr. Szeto Yuk Ting. The Audit Committee has reviewed with the management of the Company the audited Consolidated Financial Statements for the Year.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Year have been audited by Deloitte who will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of Deloitte as the Independent Auditor for the ensuing year will be put to the forthcoming AGM for shareholder's approval.

On Behalf of the Board

Chang Yoe Chong Felix
Chairman and Chief Executive Officer

Hong Kong, 26 March 2020

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

As a Hong Kong listed company, the Group stringently complies with the requirements under the Environmental, Social and Governance ("**ESG**") Reporting Guide issued by the Stock Exchange by publishing this report and fulfilling its environmental and social responsibilities.

The Group has developed its environmental protection and social sustainability strategies, and the designated teams/staff are also established within each business unit of the Group to manage ESG issues correspondingly. The Board has the ultimate responsibility for ensuing the development and effectiveness of the Group's ESG policies and measures, while Mr. Kwok Yau Lung Anthony, an executive Director and the Chief Operating Officer, would report to the Board with regards to the ESG management and internal control systems.

This report is to present the Group's management approach and performance in both environmental and social aspects, and details are described in the different sections throughout this report. Data and/or information disclosed in this report are results of internal statistics and analysis of the Group.

SCOPE OF THIS REPORT

The Group is principally engaged in the manufacturing, distribution and retail business of hair products. This report covers environmental and social information regarding its manufacturing, distribution as well as retail business of hair products of the Group, which specifically includes:

(1) the Group's head office in Hong Kong;

(2) the trading business and relevant services (collectively, the "**Trading Business**") of hair products, in the United States, the PRC, Hong Kong, Japan, Bangladesh, Thailand and Ukraine; and

(3) the manufacturing business of hair products (the "**Manufacturing Business**") in the PRC and Bangladesh.

REPORTING PERIOD

The information published in this report covers the period from 1 January 2019 to 31 December 2019 ("**FY2019**"), which is the same as the financial year covered in the Group's annual report for the year ended 31 December 2019.

BASIS OF THE REPORT PREPARATION

This report is prepared in accordance with Appendix 27, the "Environmental, Social and Governance Reporting Guide", to the Listing Rules.

ACCESS OF THIS REPORT

This report is released in both printed and online versions. The online version is available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.epfhk.com).

This report is released in both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

2. ABOUT EVERGREEN

Founded in 1962, the Group is one of leading global manufacturers of hair goods. Since its establishment, with in-depth industry knowledge, and reputed for its quality products and comprehensive product portfolio, the Group has built up unique competitive advantages in the global hair goods market. In July 2017, the Shares of the Company were listed in the main board of the Stock Exchange.

The Group mainly designs, manufactures and sells a wide range of hair goods made with synthetic fibres and human hair, including wigs, hairpieces, braids and high-end human hair extensions, targeting different ethnic groups and the Halloween market.

Headquartered in Hong Kong, the Group currently has three production centres in the PRC, and six production centres in Bangladesh. As at 31 December 2019, the Group employed (i) 21,634 employees in Bangladesh, (ii) 402 employees in the PRC, (iii) 62 employees in Hong Kong, and (iv) 31 employees in other countries (i.e. Japan, the United States, Thailand and Ukraine), as compared to 18,015 in Bangladesh, 612 in the PRC, 69 in Hong Kong, and 25 in other countries as at 31 December 2018.

Compared to the year ended 31 December 2018, there are some main changes in FY2019 which are described as follows:

(1) the Group shifted the bleaching and dyeing production line from Yuzhou, the PRC to Bangladesh;

(2) the Group shifted a production line from Kunming, the PRC to Bangladesh;

(3) the head count in Bangladesh increased from 18,000 in the year ended 31 December 2018 to 21,600 in FY2019;

(4) a printing factory was set up in Bangladesh with a head count of around 100;

(5) the Group set up the first office in Ukraine with a head count of around 5, the major business activity of which being photo shooting; and

(6) the Group set up an office in Thailand with a head count of around 5, the major business activity of which being trading of hair products.

The newly set-up offices and factory generally adopt and follow the internal control policies of the Group.

3. STAKEHOLDER ENGAGEMENT

The Group aims at continuously strengthen its environmental protection and social sustainability approach and performance by engaging and listening to both its internal and external stakeholders. Stakeholders are open to provide their feedback and freely express their expectations and concerns to the Group in the aspects of both environmental protection and social sustainability.

The Group connects with its stakeholders through their preferred communication channels as listed in Table 3.1 below:

Table 3.1 Stakeholders' Expectations and Communication Channels

Stakeholders	Expectations and Concerns	Communication Channels
Government and regulatory authorities	– Compliance with laws and regulations – Pay taxes according to law – Implement relevant regulatory policies	– Policy guidance – Supervision of compliance – Routing reports and taxes paid
Suppliers/Business Partners	– Fair and open procurement – Win-win cooperation	– Open tendering – Purchase reviews – Business exchange and cooperation – Supplier screening and rating – Face-to-face meetings and onsite visits
Customers	– High quality products and services – Protect the rights of customers	– Product promotion – Sales reviews – Customer service hotline and email
Shareholders	– Sound risk management – Good disclosure – The ability to continuously create value – Return on investment	– Regular meetings – Regular reports and announcements – Routing communication – Official website
General public (i.e. media, NGOs, local communities)	– Involvement in communities – Business compliance – Environmental protection awareness – Actively carry out various charitable activities	– Media conferences and responses to enquiries – Investment on communities – Public welfare activities – Regular reports and announcements – Official website
Employees	– Health and safety in the working places – Employees' compensation and benefits – Fair career development opportunity	– Regular meetings and training – Emails, notice boards, hotline, caring activities with management

MATERIALITY ASSESSMENT SURVEY

In FY2019, the Group engaged its internal and external stakeholders to conduct materiality assessment survey, and key stakeholders were selected based on their influence and dependence on the Group. The Group's management chose and invited those key stakeholders with a high level of influence and dependence to express their views and concerns on a list of environmental and social issues via filling in the questionnaire.

The questionnaire includes 4 sections (environment, employment and labour practices, operating practices, and community) with a total of 43 questions. The selected key stakeholders score each question from 0 to 5 based on its relevance/importance to the Group or Stakeholders.

The results of the materiality assessment survey are present in Table 3.2 and Table 3.3 below, with the average score to each question noted in the bracket following each item *(0 – Not relevant; 1 – Of little importance; 2 – Somewhat important; 3 – Important; 4 – Very important; 5 – Crucial)*:

Table 3.2 Results of the Materiality Assessment Survey – Internal Part

Section 1: Environment

Emissions	Use of Resources	The Environment and Natural Resources
A1 General Disclosure (4.5)	A2 General Disclosure (4.5)	A3 General Disclosure (4.3)
KPI A1.1 (4.4)	KPI A2.1 (4.2)	KPI A3.1 (4.2)
KPI A1.2 (3.4)	KPI A2.2 (4.2)	
KPI A1.3 (4.3)	KPI A2.3 (4.1)	
KPI A1.4 (4.1)	KPI A2.4 (4.2)	
KPI A1.5 (4.1)	KPI A2.5 (4.0)	
KPI A1.6 (4.1)		

Section 2: Employment and Labour Practices

Employment	Health and Safety	Development and Training	Labour Standards
B1 General Disclosure (4.6)	B2 General Disclosure (4.8)	B3 General Disclosure (4.6)	B4 General Disclosure (4.8)
KPI B1.1 (4.5)	KPI B2.1 (4.6)	KPI B3.1 (4.5)	KPI B4.1 (4.8)
KPI B1.2 (3.3)	KPI B2.2 (4.1)	KPI B3.2 (4.1)	KPI B4.2 (4.8)
	KPI B2.3 (4.6)		

Section 3: Operating Practices

Supply Chain Management	Product Responsibility	Anti-corruption
B5 General Disclosure (4.0)	B6 General Disclosure (4.4)	B7 General Disclosure (4.8)
KPI B5.1 (3.9)	KPI B6.1 (4.0)	KPI B7.1 (3.9)
KPI B5.2 (4.2)	KPI B6.2 (4.5)	KPI B7.2 (4.8)
	KPI B6.3 (4.7)	
	KPI B6.4 (4.5)	
	KPI B6.5 (3.7)	

Section 4: Community

Community Investment		
B8 General Disclosure (4.3)	KPI B8.1 (4.6)	KPI B8.2 (4.5)

Table 3.3 Results of the Materiality Assessment Survey – External Part

Section 1: Environment

Emissions	Use of Resources	The Environment and Natural Resources
A1 General Disclosure (3.1)	A2 General Disclosure (4.0)	A3 General Disclosure (3.1)
KPI A1.1 (3.3)	KPI A2.1 (3.5)	KPI A3.1 (2.9)
KPI A1.2 (2.8)	KPI A2.2 (3.6)	
KPI A1.3 (3.1)	KPI A2.3 (3.6)	
KPI A1.4 (2.9)	KPI A2.4 (3.3)	
KPI A1.5 (3.4)	KPI A2.5 (3.5)	
KPI A1.6 (3.5)		

Section 2: Employment and Labour Practices

Employment	Health and Safety	Development and Training	Labour Standards
B1 General Disclosure (4.3)	B2 General Disclosure (4.4)	B3 General Disclosure (4.1)	B4 General Disclosure (4.8)
KPI B1.1 (1.9)	KPI B2.1 (4.0)	KPI B3.1 (3.3)	KPI B4.1 (4.6)
KPI B1.2 (2.0)	KPI B2.2 (3.3)	KPI B3.2 (2.9)	KPI B4.2 (4.4)
	KPI B2.3 (3.8)		

Section 3: Operating Practices

Supply Chain Management	Product Responsibility	Anti-corruption
B5 General Disclosure (3.4)	B6 General Disclosure (4.0)	B7 General Disclosure (3.5)
KPI B5.1 (2.1)	KPI B6.1 (4.1)	KPI B7.1 (3.3)
KPI B5.2 (2.9)	KPI B6.2 (4.3)	KPI B7.2 (3.4)
	KPI B6.3 (4.3)	
	KPI B6.4 (4.0)	
	KPI B6.5 (4.1)	

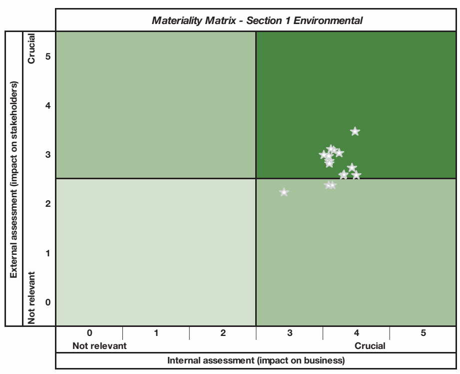
Section 4: Community

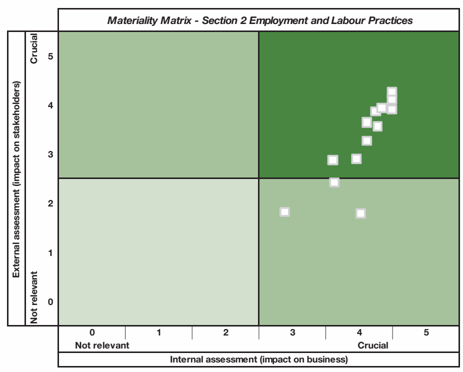
Community Investment		
B8 General Disclosure (3.0)	KPI B8.1 (2.8)	KPI B8.2 (2.6)

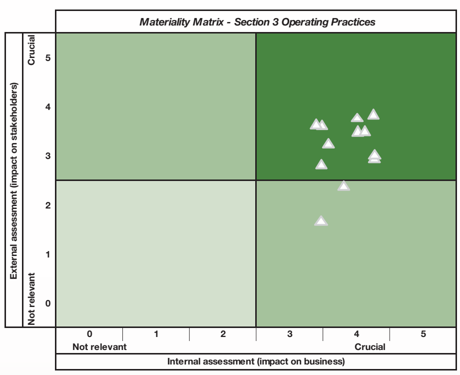
With the results of materiality assessment survey from both internal and external stakeholders, the Group devised stakeholder engagement materiality matrixes by prioritising the 43 environmental and social general disclosures and key performance indicators and present as below separately for section 1 – environmental, section 2 – employment and labour practices, section 3 – operating practices and section 4 – community.

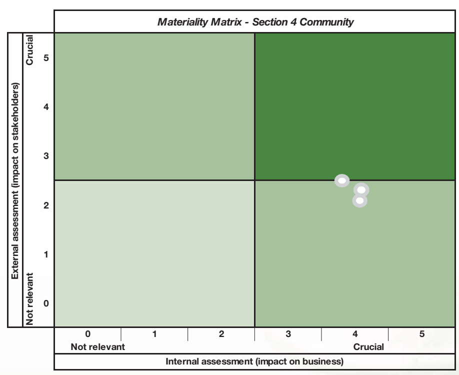
With respect to this report, the Group has identified over 90% issues with the highest significance (i.e. those in the top right-hand quadrant) to both its business and its stakeholders.

STAKEHOLDER ENGAGEMENT MATERIALITY MATRIXES









This materiality assessment survey assisted in the Group in prioritising its environmental and social issues, and highlighting the relevant and important aspects, so as to align them with internal and external stakeholders' expectations.

4. ENVIRONMENTAL MATTERS

The Group is engaged in the manufacturing of hair products, which is closely related to environmental protection and usage of natural resources. Adhering to the goal of sustainable development and operation, the Group has formulated a series of management policies, mechanism and measures regarding environmental and natural resources protection.

The Group strives to enhance the efficiency in the usage of energy, water resources and materials, while also complying with relevant environmental laws and regulations in the areas of business operation, with an aim to reduce the use of natural resources and protect the environment. The offices and manufacturing plants of the Group have implemented effective energy conservation measures to reduce emissions and consumption of resources.

4.1 EMISSIONS

The Group has complied with relevant local environmental laws and regulations as set out in the countries where it operates. In FY2019, the Group was not in violation of relevant laws and regulations related to emissions which have a significant impact on the Group and its business.

The detailed emission amounts and intensity for each type of emissions in FY2019 are presented in Table 4.1 below:

Table 4.1 The Group's Emissions Amount and Intensity in FY2019

Indicators	Unit	Amount1*	Amount2**	Intensity*** (per employee)
GHG Emissions				
Direct emissions	Tonne CO_2e	322	2,688	–
Energy indirect emissions	Tonne CO_2e	103	13,422	–
Total GHG emissions	Tonne CO_2e	425	16,110	0.75
Discharge to Water				
Total industrial wastewater discharge	Tonnes	/	2,985	0.13
Total domestic wastewater discharge	Tonnes	33.14	5,976	0.27
Hazardous Waste				
Total hazardous waste	Tonnes	<1	<1	~0
Non-hazardous Waste				
Total non-hazardous waste	Tonnes	<1	21	~0

* *Amount1 refers to the emission from the offices and the Trading Business*
** *Amount2 refers to the emission from the Manufacturing Business*
*** *Intensity = (Amount1+ Amount2)/total employees of the Group in FY2019*

Trading Business

For the Trading Business of the Group, emissions mainly include greenhouse gases ("**GHG**") emissions, domestic wastewater discharge, hazardous wastes and non-hazardous wastes generated in the offices. No air emissions, hazardous wastewater generated by the trading business in FY2019.

The sources of GHG emissions from the Trading Business are mainly the use of fossil fuels and electricity. To reduce GHG emissions from fossil fuels and electricity consumption, the Group has taken specific measures, which are described in the following section headed "4.2 Use of Resources – Energy" in this report.

Domestic wastewater generated from offices was directly discharged to the municipal drainage system. The amount of domestic wastewater discharge mainly depends on the water usage amount, and the Group has taken specific measures to reduce water consumption in the offices, which are described in the following section headed "4.2 Use of Resources – Water" in this report.

Non-hazardous wastes were generated from daily operations in offices, and the Group has carried out the following practices to reduce the wastes generation amount:

- Sourcing, separating, re-using, and recycling solid wastes;
- Reducing printers' configuration and using both sides of the paper;
- Establishing a network group to reduce paper usage;
- Using the yellow part of the back of the workshop packaging stickers as draft paper;
- Training and encouraging employees on waste management and reduction; and
- Collecting and disposing of non-recyclable solid wastes by licensed waste management company.

Manufacturing Business

The types of emissions from the Manufacturing Business of the Group mainly include GHG emissions, discharge into water, hazardous and non-hazardous wastes. The Group has developed and implemented its environmental policies relating to different types of emissions and the detailed policies and practices are described below.

The Group formulated internal policies in relation to management of environmental emissions, which include but not limited to:

- Environmental protection must be considered before production commences;
- Regular environmental assessments are conducted and the assessment results are integrated in formulating emission standards;
- Environmental assessment are passed before new equipment is purchased or new initiatives are adopted;
- Environmental management policy has been developed;
- Wastewater management system has been established; and
- Training is carried out for staff so that they have basic environmental awareness and understanding of emission requirements.

Air and GHG Emissions

The Group does not generate industrial air emissions. The GHG emissions in the Manufacturing Business are mainly from the use of gasoline, diesel, coal, natural gas, electricity to power machineries and vehicles.

To reduce the GHG emission and control the impacts on environment, the Group has developed and carried out mitigation measures as below:

- Actively developing low-carbon energy resources, such as gradually replacing diesel and other fuels by natural gas;
- Promoting and using high efficiency or energy-saving equipment;

- Actively promoting energy-saving and emission reduction to raise energy-saving and environmental awareness among most staff;
- Reducing air conditioning configuration;
- Using ventilation fan in office areas;
- Reducing the frequency of vehicle use; and
- Encouraging the employees to take the public transportation.

Discharge to Water

Wastewater generated from the Manufacturing Business mainly includes:

- Industrial wastewater from production processes, which is treated onsite by its own wastewater treatment facility ("**WWTF**") and then discharged to the municipal drainage system or being used as landscape water; and
- Domestic wastewater from sanitary purpose, which is directly discharged into the municipal drainage system.

To reduce wastewater discharge, the Group has carried out a series of measures which include:

- Establishing sewage treatment monitoring process under which water quality is inspected, to ensure that the quality of sewage discharged is compliant with the national standard;
- Reusing shampoo and controlling the usage of fresh water to reduce the amount of wastewater generated; and
- Recycling of treated wastewater for other use such as watering plants, cleaning floors, landscaping, and flushing the toilet.

Waste Management

Wastes generated from the Manufacturing Business mainly include:

- Non-hazardous wastes: domestic solid wastes generated from onsite sanitary purpose, and non-hazardous industrial wastes such as waste packaging materials, fabrics, etc. from production process, which are collected and stored at the designated waste area/room onsite and transferred by the local sanitary station/waste handling company, under the signed agreement; and

- Hazardous wastes: sludge generated from the onsite WWTF, used chemical containers and used oil, which are collected and stored at the designated hazardous waste area/room onsite, and transferred by licensed hazardous waste vendors regularly pursuant to signed agreements.

The following waste reduction initiatives have been taken by the Group:

- Collect, re-use and recycle the solid wastes;

- Reuse packaging materials such as carton boxes and paper, etc.;

- Proactively recycle waste such as plastics and papers and classify them for reuse; and

- Arrange designated qualified recycling company to handle production processes involving hazardous waste to prevent illegal handling of waste.

4.2 USE OF RESOURCES

The resources consumed by the Group mainly include energy (i.e. electricity, natural gas, gasoline, diesel and coal), water, packaging materials (i.e. paper and boxes), and raw materials (i.e. plastic).

As a manufacturer of hair products, the Group emphasizes the use of resources and proactively advocate the awareness on conservation and efficient use of electricity, water and resources among staff. The Group has formulated internal policies on efficient use of resources (e.g. energy, water, packaging materials and raw materials).

In FY2019, the Group has complied with the relevant local laws and regulations related to use of resources which have a significant impact on the Group or its business. The consumption amounts of resources and intensity in FY2019 are presented in Table 4.2 below:

Table 4.2 The Group's Total Use of Resources in FY2019

Indicators	Unit	Amount1*	Amount2**	Intensity*** (per employee)
Energy				
Electricity	MWh	134	19,696	0.90
Natural Gas	M^3	167	64,053	2.90
Gasoline	Litres	8,761	47,455	2.54
Diesel	Litres	107,501	516,275	28.19
Coal	Tonnes	/	435	0.02
Water				
Water	M^3	2,139	443,900	20.16
Packaging material				
By Paper	Tonnes	115	2,153	0.10
Raw Materials				
By Plastic	Tonnes	17	442	0.02

* *Amount1 refers to the emission from the offices and the Trading Business*

** *Amount2 refers to the emission from the Manufacturing Business*

*** *Intensity = (Amount1+ Amount2)/total employees of the Group in FY2019*

Energy

1. Electricity

Electricity consumption of the Group is mainly from regular operation of the offices and plants. To ensure efficient use of electricity, the Group has carried out the measures and practices, including but not limited to the following:

- Replacing traditional incandescent lighting with electricity-saving lighting in the manufacturing areas and office areas;
- Replacing original equipment with energy-saving equipment;
- Turning off lights, computers and air conditioning system at the end of the day;

- Placing energy-saving reminder labels next to the switches;
- Cleaning office equipment regularly to maintain high efficiency;
- Setting temperatures of air conditioners according to seasonal needs; and
- Replacing conventional air-conditioners with varied frequency air-conditioners.

2. Natural gas and Coal

The boilers of the Group mainly consume natural gas and coal, while some of the vehicles use compressed natural gas. To ensure efficient use of energy, the Group has considered and taken measures to reduce coal usage and enhance the use of natural gas for the boilers' operation.

3. Gasoline and Diesel

Gasoline is mainly consumed by vehicles, while diesel is used as fuel for both vehicles and back-up generators. The Group has launched simple initiatives to make efficient use of gasoline and diesel, such as: 1) making the best use of space to avoid unnecessary travel; 2) replacing highly-polluting vehicles with more environmentally-friendly models (e.g. electricity powered vehicles); 3) engaging senior auto repair technicians to supervise the condition of vehicles; and 4) hiring skilled drivers.

Water Usage Management

Use of water by the Group mainly includes: 1) municipal tap water used for production and sanitary purpose; and 2) bottled water mainly for drinking purpose. There was no issue in sourcing water for its operations in FY2019.

To improve the efficiency of water usage, the Group has carried out a variety of effective water saving measures or policies, for example:

- Enhancing the inspection and maintenance of water consumption facilities (water taps, pipelines and relevant system) in the manufacturing plants and offices and takes timely remedy to any water leakage or dripping;
- Posting water conservation slogans in various places to raise employee awareness of water conservation and to remind employees and visitors on water saving; and
- The faucet is designed as a water-saving faucet to reduce water output.

Raw Materials and Packaging Materials

The main packaging materials used by the Group include cardboard, carton boxes, self-manufactured polyethylene film bags. The raw materials used by the Group are mainly hair and fibres.

To reduce the use of packaging materials, the Group has carried out measures, such as reusing most of the carton boxes and purchasing packaging materials by order quantity.

Paper

Paper is mainly used by the offices of the Group. The Group strives to reduce paper usage by carrying out the following practices:

- Think before print;
- Set duplex printing as the default mode for most of the network printers;
- Use email to reduce fax paper consumption;
- Separate single-sided paper and double-sided paper neatly for better recycling; and
- Reuse single-sided documents for printing or as draft paper.

4.3 THE ENVIRONMENT AND NATURAL RESOURCES

The main impact of the Group's operation on the environment and natural resources is mainly from the emissions, wastewater discharge, wastes generation, and use of resource and energy (e.g. electricity, gasoline, diesel, coal and natural gas).

The Group is committed to conducting its business activities in an environmentally conscious manner and strives to mitigate the environmental impact caused by the Group's operations.

To reduce the impacts to the environment and natural resources, the Group has implemented relevant policies and measures in relation to energy consumption reduction, wastewater treatment before discharge, emissions reduction and wastes reduction or recycling, etc.

The Group strives to protect the environment while making contribution to the local communities to ensure sustainable development;

Detailed actions carried out by the Group include:

- Actively exploring and introducing renewable energy;
- Recycling dyed wastewater after treatment;
- Recycling packaging carton materials for use as turnover box;
- Re-using cracked-cut cardboard as production tool; and
- Using construction waste template as boiler fuel.

5. SOCIAL RESPONSIBILITIES

Employees are practitioners of the Group's values and the key to implementation of the Group's sustainable strategies. Viewing employees as the most valuable resources and wealth, the Group values and protects the legitimate rights and interests of its employees by providing them with good career development opportunities. The Group is also concerned about employees' health and safety as well as well-being. The Group strives to create a safe and satisfactory working environment for its employees with an aim to achieve common growth.

5.1 EMPLOYMENT AND LABOUR PRACTICES

5.1.1 Employment

The Group has developed a variety of human resource ("**HR**") policies. The HR department regularly reviews and updates the relevant company HR policies based on the latest laws and regulations. All subsidiaries of the Group shall follow the Group's HR policies and comply with relevant employment laws and regulations in Hong Kong, the PRC, and Bangladesh, including but not limited to the *Employment Ordinance of Hong Kong*, the *Labour Law of the PRC*, the *Labour Contract Law of the PRC*, and the *Bangladesh Labour Act*.

During the FY2019, the Group was generally in compliance with the relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the business.

The Group has formulated internal policies such as the *Policies and Procedure for Human Resources and Payroll Management*, which covers recruitment, resignation and termination, salary determination and approval, pension plans, occupational schemes and contribution, payroll and performance evaluation process. The detailed HR measures and practices related to employment are described in the respective sub-sections as follows.

1. Recruitment, promotion and dismissal

The HR department is responsible for employment information and conducts recruitment in an open and impartial manner regardless of gender, and introducing talents according to their personal qualifications and the needs of the Group, with the aim to achieve the Group's target and strictly complying with the laws and regulations in recruiting staff.

The Group provides staff with competitive promotion path based on the Group's performance and talent development strategy, staff performance review and tests, or based on internal recommendation of outstanding staff by departments and promoting staff that contribute to the Group.

The Group implements performance appraisal scheme to evaluate the staff performance in July and December each year, in order to strengthen mutual understanding and communication between staff and the Group. As a basis of reference, the appraisal results are applied to the confirmation of employment, promotion, rewards, transferal, jobs rotation, training and personal development of the staff.

If an employee is unable to perform his/her current job, he/she will go through training or redeployment. If the employee is still unable to perform the job, the Group will terminate the employment relationship in accordance with the laws and regulations. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

2. Working hours and rest periods

The Group has formulated its policy for determining working hours and rest periods for employees based on local employment laws. The Group has established staff attendance systems to effectively manage staff's working hours. Employees voluntarily apply for overtime when needed.

The Group strictly adheres to the policies in relation to basic paid leave and statutory holidays stipulated by the local employment laws and regulations. The Group also provides leave entitlements to employees, such as marriage leave, maternity leave and compassionate leave.

3. Compensation

The Group holds the principles of fairness, ability-based, competitiveness, and timely salary determination and approvals for equal work for both genders, and commits to providing opportunities to employees to tap their potential, and determines remuneration according to employees' knowledge and skills. The Group refers to its performance and market environment in adjusting the remuneration to ensure that its remuneration is in line with market and that its employees are motivated.

The Group determines the remuneration in accordance with the minimum wage standards required by local laws and regulations where the Group operates. The final payment is calculated based on the terms of discretionary bonus and leave records of the staff. The payroll related records can only be accessed by the assigned management personnel and are kept confidential.

4. Anti-discrimination, equal opportunity and diversity

By promoting anti-discrimination and equal opportunity in all decisions involving human resources, the Group commits to creating a fair, open, objective, non-discriminatory, and diverse working environment, assisting staff in developing their potentials, and treating talents of different nationalities, genders, ages and religions, etc. with the principles of fairness and impartiality.

The Group recruits and develops talents according to their educational qualifications, professional ability, job knowledge and skills, work experience and competency of the employees. Attributes (including race, gender, religion, age, nationality, disability, social status, marital status, etc.) not related to the job requirements should not be considered. Besides, the Group safeguards staff's rights so that they will not be discriminated in any ways, including employment, compensation, training opportunities, promotion, contract termination and retirement.

The Group will never interfere with the rights and freedoms of all staff regarding races, nationality, religion, disability, gender and gender orientation.

Employees are encouraged to report any incidents involving discrimination to the HR department. The HR department has responsibility to assess, dealing with, and taking relevant disciplinary actions on the reported incidents.

5. Labour benefits and welfare

The Group provides competitive benefits for employees and formulates benefits according to the relevant laws and regulations in Hong Kong, the PRC and Bangladesh, including various leave entitlements as described in the above section. The Group also provides other benefits such as staff dormitory, lunch, shuttle bus service, gifts during some festivals or holidays and social activities (such as singing and sports activities). The Group also organises annual party/dinner/travel for the employees.

The Group also implements comprehensive protection scheme and participates in social insurance (i.e. pension, medical insurance, unemployment insurance, maternity insurance and work injury insurance) and housing provident fund.

5.1.2 Health and Safety

The Group makes efforts in providing and maintaining a safe and healthy working environment for its employees, and strictly complies with the relevant laws and regulations with regards to occupational health and safety, including but not limited to the *Occupational Safety and Health Ordinance of Hong Kong*, the *Production Safety Law of the PRC*, the *Occupational Disease Prevention Law of the PRC*, the *Production Safety Regulations of Guangdong Province*, the *Bangladesh Labour (Amendment) Act*.

During FY2019, the Group was in compliance with the relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that have a significant impact on the business. There is no work-related injuries or fatalities in FY2019.

The Group has established and implemented occupational health and safety related policies and procedures, including but not limited to:

- Production Safety Commitment
- Production Safety Management Plan
- Production Safety Accident Emergency Plan
- Fire Safety Management System
- Fire drill program

- Health and Safety Committee Structure
- Constructing Plant & Product Safety
- Factory Safety Policy
- Safety Meeting Instruction
- Chemical Safety Precautions and Hygienic Plan
- Cutting Machine Operating Guideline
- Net Department Ultrasonic Machine Safety Operation Instruction

In addition, the Group has carried out measures and practices to maintain good and safe working conditions for its employees, for example:

- Providing a variety of health and safety related training (see Section 5.1.3 for details) to employees, to enhance their technical skills and health and safety awareness;
- Carrying out environmental protection measures (i.e. WWTF) to ensure that dangerous items are able to meet national standards in order to continuously enhance safety of work environment;
- Providing fire-fighting equipment in offices and factories for emergency purposes which is inspected and maintained regularly;
- Carrying out fire-fighting and evacuation drills regularly (quarterly or yearly);
- Providing in place fire safety notice board;
- Providing medical checks for employees, including general medical checks for general employees and occupational health checks for specific employees/workers who are vulnerable to occupational hazards (i.e. hazardous substances, noise, etc.);

- Providing personal protective equipment (PPEs, such as safety glasses, boots, gloves, masks, etc.) to pertinent workers;
- Equipping large suction fans or opening windows to keep good indoor air quality;
- Posting safety warning signs in workplaces which are potentially dangerous; and
- Prohibiting smoking and consuming alcoholic beverages at workplace.

5.1.3 Development and Training

The Group puts emphasis on employees' knowledge, quality and on-the-job training to enable them to perform their job and enhance competitiveness so as to meet the Group's needs. The Group has formulated internal policies for development and training, such as the *Training and Development Policy*.

To actively nurture professionals for the Group, appropriate training is provided to employees. The training provided by the Group includes the following categories:

- Introduction training: orientation training provided to new staff covers policies and procedures of the Group, safety and fire-fighting, position-related knowledge and skills, etc.;
- Professional and technical training: training on professional skills (such as mechanical equipment repair and maintenance, special operation test, and product expertise etc.), knowledge required for different positions (such as new laws and regulations, product development, etc.) are provided;
- Qualifications: training and further education in pursuit of qualifications for employees are provided, such as training to environmental protection supervisors, safety supervisors, first aiders and electrician staff, etc. The Group also operates the "Post Entry Training Scheme". It is the Group's policy to link training and further education to external national standards wherever appropriate; and
- Health and safety: such training is provided as part of the employee's introduction training and regular refresh training. Courses are arranged according to the Group's needs. Local authorities may also arrange firefighting safety training which the Group is required to attend.

In addition to the internal training mentioned above, for enhancing the employees' competitiveness and expanding their professional capabilities through continuous learning, the Group also arranges its management staff and encourages outstanding employees to attend external training courses, such as production cost effectiveness. The Group may organize together with external training organizations and trainers, to provide job-related training to its pertinent employees.

The Group assesses and monitors the execution of its training programmes by conducting post-training evaluation. The Group's HR department is responsible for collecting and analysing the data from the training statistics and overseeing the review of the training and development policy.

5.1.4 Labour Standards

According to the *Employment Ordinance of Hong Kong*, the *Labour Law of the PRC*, and the *Bangladesh Labour Act* and other relevant labour laws and regulations, the Group will never recruit forced labour and/or child labour whose age is lower than the minimum age allowed under the local laws and regulations.

During FY2019, the Group was in compliance with the relevant laws and regulations relating to preventing child and forced labour that have a significant impact on its business.

The Group has formulated internal policies for labour standards, such as the *Social Responsibility Policy*. The Group has also implemented relevant measures to prohibit any child and forced labour employment, including but not limited to:

- Valid identity proof (i.e. ID card) is required to provide from job applicants during interview to confirm their actual age and legal employment;
- Interviews are conducted face-to-face with job applicants by the HR department to prevent forced labour; and
- The HR department is responsible for monitoring and ensuring compliance with the latest relevant laws and regulations.

5.2 OPERATING PRACTICES

5.2.1 Supplier Chain Management

The Group aims to establish a supply chain management system so as to proactively provide comprehensive solutions that meet customers' needs through consolidating procurement resources and promoting the screening and management mechanism of suppliers. In addition to enhancing product quality and lowering costs, the Group also focuses on developing the suppliers' research and development and sustainable development capability, in order to continuously improve the supply chain management as well as performing social and environmental responsibilities.

Suppliers are managed by the Group's headquarters. The Group has formulated the *Policies and Procedures for Expenditure Management* for selection, management and evaluation of its suppliers. The Group selects and evaluates suppliers/sub-contractors based on the criteria such as pricing, quality of work, and performance capability. The suppliers/sub-contractors selected by the Group should be evaluated annually.

The Group has been trying to reduce the environmental impact from procurement activities when cooperating with its suppliers. Not only must a supplier meet the Group's internal standards, but also be a legally compliant, socially responsible and financially healthy enterprise.

To maintain and manage a sustainable and reliable supply chain that takes environmental and social impact into consideration, and monitor the quality of its suppliers and supply chain practices on a strict and regular basis, the Group has formulated a supplier evaluation system covering environmental and social factors.

Apart from assessing financial and capability performance, the Group also focuses on supplier's social responsibility and sustainability performance. The Group puts emphasis on supplier's commitment to social responsibility and human rights, and requires them to comply with the *BSCI Code of Conduct*, which covers prohibition of child and forced labour, anti-discrimination, anti-coercion and harassment, health and safety, compensation and benefits, association, environmental protection, and law-abiding.

5.2.2 Product Responsibility

As an enterprise with strong sense of social responsibility, the Group strictly complies with the relevant laws and regulations in the PRC and Bangladesh, including the *Product Quality Law of the PRC* and the *Law on Protection of Consumer Rights and Interests of the PRC*, thereby fully safeguarding its products from the processes of raw material procurement, production, final product testing as well as warehousing and logistics, which forms a comprehensive quality monitoring system.

In addition, the Group also complies with the laws and regulations in the United States based on customers' requirements, such as the *U.S. Consumer Product Safety Act*, the *Consumer Product Safety Improvement Act*, and the *U.S. Code of Federal Regulations*.

During FY2019, the Group was in compliance with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided that may have a significant impact on the Group.

The Group pays great attention to product quality and has established the *Policies and Procedures for Production Management* for ensuring proper execution at each stage of the manufacturing process. The quality control department of the Group is responsible for inspecting the quality of raw materials, semi-finished products and finished products. The quality control department also performs random quality checks and inspections to ensure any products with defects could be identified and fixed before being shipped to customers. The Group has also formulated internal policies for product responsibility, such as the *Product Quality Emergency Response Procedure*.

1. Health and Safety

The Group ensures that the products that it manufactures meet its high standards and stringent requirements in terms of health and safety by carrying out a various of measures, such as 1) only purchasing raw materials from suppliers that have passed the Group's quality and reliability assessment; and 2) requesting suppliers to provide raw material test reports prepared by international recognized testing centres in compliance with international standards.

In addition, based on customers' requirements, the Group may engage independent companies to conduct testing on levels of certain chemicals, heavy metals and flammability, under various international standards to ensure its products having passed the relevant requirements.

In FY2019, no claim or complaint was made against the Group for any product health and safety issues.

2. Advertising and Labeling

The Group has established internal guidelines to ensure that accurate product labeling and marketing materials complying with the relevant local laws and regulations, including the *Advertising Law of the PRC*, are provided to its customers. Any exaggeration of descriptions in marketing materials is strictly prohibited. If there is any non-compliance with its internal guidelines, the Group would carry out corrective actions in a timely manner.

3. Privacy Matters

The Group is dedicated to protecting and enforcing its intellectual property rights and has complied with the relevant laws and regulations such as the *Patent Law of the PRC*, and the *Intellectual Property Law of the PRC*.

The Group is committed to abiding by the laws relating to customer privacy, such as the *Personal Data (Privacy) Ordinance of Hong Kong*, the *Customer Protection Law of the PRC*, and other relevant laws and regulations, to ensure that customers' rights are strictly protected. Information collected by the Group from its customers would only be used for the purpose for which it is collected. The Group prohibits the provision of customer information to any third party without the authorization of that customer. All personal data of customers collected during the course of business are treated as confidential, kept securely and only accessible to designated personnel. Through internal training, the Group reminds its employees of the serious legal consequences of breaching the regulations.

5.2.3 Anti-Corruption

The Group prohibits any form of bribery and corruption, and has strictly enforced its internal policy, entitled the *Code of Conduct*, which provide reporting channels and guidance to employees for any suspected impropriety, misconduct or malpractice within the Group.

To prevent criminal acts such as business bribery, extortion, fraud and money laundering in business dealings, the Group strictly abides by business ethics and regulations and requires all employees to strictly regulate their behaviours both inside and outside the Group, by arranging employees to attend training courses related to anti-bribery and anti-corruption, which are organized by the Hong Kong Independent Commission Against Corruption every three years. All employees are expected to discharge their duties with integrity, to act fairly and professionally, and to abstain from engaging in bribery activities or any activities which might exploit their positions against the Group's interests.

The Group also requires its suppliers to sign and commit to complying with the *Written Commitment on Anti-Corruption and Anti-Bribery*, so that an effective operation of internal and external integrity structure could be assured in the Group.

The Group strictly adheres to the local laws and regulations relating to anti-corruption, bribery, extortion, fraud and money laundering, including but not limited to the *Prevention of Bribery Ordinance of Hong Kong*, the *Criminal Law of the PRC*, the *Law on Anti-money Laundering of the PRC*, and the *Bangladesh Anti-Corruption Commission Act*.

During FY2019, no legal cases relating to corrupt practices happened against the Group or its employees. The Group was in compliance with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering that may have a significant impact on the Group.

The Group is committed to ensuring that employees can speak up with confidence when he or she suspects there being any activity of corruption. Whistle-blowers have obligation to report any suspected misconducts and can report verbally or in writing to the senior management of the Group. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation.

5.3 COMMUNITY

5.3.1 Community Investment

The Group sees the community engagement as one of its social responsibilities, considers the communities' interests, and has been trying to make a positive contribution to the communities where the Group operates. The Group is committed to promoting the economic development and living environment of communities and insists on helping individuals and organizations within the community.

The Group is keen to support social welfare activities and community care projects and encourages its own employees to participate in the activities and projects. To better fulfill the social responsibilities and consider the communities' interests, the Group has established policies on community engagement, and launched/attended various activities, including but not limited to:

- Cooperate actively with local governments and social organizations;
- Steadfastly promoting social employment and contributing to alleviating unemployment;
- Making donations to charity fund, golf club, national conference, football tournament fund, rice purchase for senior citizens and The Community Chest of Hong Kong, etc.;
- Protecting the environment by reducing emissions and emphasizing energy conservation; and
- Fulfilling legal obligation by paying tax.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF EVERGREEN PRODUCTS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Evergreen Products Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 101 to 185, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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	How our audit addressed the key audit matter
Valuation of leasehold land and buildings ("FV Properties")	
We identified the valuation of FV Properties as a key audit matter due to the significant of the balance to the consolidated financial statements as a whole and significant assumptions involved in determining their fair value. As set out in note 4, FV Properties of the Group are stated in the consolidated statement of financial position at the date of the revaluation at fair value less subsequent accumulated depreciation and accumulated impairment losses, if any. As set out in note 16 to the consolidated financial statements, the Group's FV Properties amounted to approximately HK$138,248,000 as at 31 December 2019, the date of revaluation. A surplus on revaluation of HK$12,482,000 was recognised based on a valuation performed by an independent qualified valuer using market approach. The key inputs used in valuing the FV Properties are market unit rate of comparable properties and adjustments to reflect the time, location, quality, floor level and size of the subject properties of the comparable transactions.	Our procedures in relation to valuation of FV Properties included: • Evaluating the competence, capabilities and objectivity of the independent qualified valuer; • Obtaining an understanding from the independent qualified valuer about the valuation methodology, the significant assumptions adopted, critical judgemental areas on key inputs and data used in the valuation; and • Assessing the reasonableness of the key inputs used by the independent qualified valuer by checking to available market data.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified valuation of inventories as a key audit matter due to the significance of balance to the consolidated financial statements and significant management's judgement involved in the valuation process. As explained in note 4 to the consolidated financial statements, the management of the Group reviews the usage of the inventories at the end of year and make provision for obsolete inventories that are no longer suitable for production or saleable in the market with reference to the current market conditions, estimated selling prices of the inventories, ageing analysis and subsequent sales/ usage of the inventories. As disclosed in notes 20 and 4 to the consolidated financial statements, the Group's inventories as at 31 December 2019 amounted to HK$476,613,000 and no provision for obsolete inventories has been made for the year ended 31 December 2019.	Our procedures in relation to valuation of inventories included: • Obtaining an understanding of the Group's inventory provision policy and the management's processes in identifying aged or obsolete, slow-moving inventories that are no longer suitable for production used nor saleable in the market; • Testing the accuracy of the ageing of inventories prepared by the management, on a sample basis, by tracing to good receipt notes and production reports; • Assessing whether obsolete and slow moving inventories were properly identified after taking into account of the current market condition, ageing analysis, subsequent sales of finished goods and subsequent usage and consumption of raw materials and work in progress; • Comparing the actual selling price of finish goods subsequent to the year end, on a sample basis, to their carrying amounts to check whether the finish goods are stated at lower of cost and net realisable value; and • Assessing the historical accuracy of the provision for obsolete inventories to evaluate the appropriateness of the basis used by management in the current year.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Mak Chun Bon.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 March 2020

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**777,405**	732,170
Cost of goods sold		**(520,397)**	(476,405)
Gross profit		**257,008**	255,765
Other income	7	**2,868**	2,887
Other gains and losses	8	**3,463**	8,226
Distribution and selling expenses		**(14,962)**	(16,015)
Administrative expenses		**(140,177)**	(123,034)
Other expenses	9	**(729)**	(1,333)
Finance costs	10	**(20,677)**	(15,524)
Profit before tax	11	**86,794**	110,972
Income tax expense	13	**(594)**	(361)
Profit for the year		**86,200**	110,611
Other comprehensive income (expense) for the year:			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of land and buildings		**12,482**	13,928
Deferred tax arising from revaluation of land and buildings		**(879)**	(1,232)
		11,603	12,696
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(2,957)**	(3,330)
Other comprehensive income for the year, net of income tax		**8,646**	9,366
Total comprehensive income for the year		**94,846**	119,977

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2019

	Note	**2019** **HK$'000**	2018 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		**90,328**	110,975
Non-controlling interests		**(4,128)**	(364)
		86,200	110,611
Total comprehensive income (expense) attributable to:			
Owners of the Company		**98,985**	120,386
Non-controlling interests		**(4,139)**	(409)
		94,846	119,977
Earnings per share (HK$)	*15*		
– basic		**0.15**	0.18
– diluted		**0.14**	0.18

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	721,680	553,951
Right-of-use assets	17	29,041	–
Prepaid lease payments	18	–	18,412
Non-current deposits	21	19,570	21,321
Financial assets at fair value through profit or loss	19	25,761	24,766
		796,052	618,450
Current assets			
Inventories	20	476,613	430,889
Trade and other receivables	21	319,159	269,986
Prepaid lease payments	18	–	344
Tax recoverable		950	962
Pledged bank deposits	22	93,097	84,785
Bank balances and cash	23	36,109	68,873
		925,928	855,839
Current liabilities			
Trade and other payables	24	60,643	64,773
Contract liabilities	25	3,391	4,638
Amount due to a related company	26	50,000	30,000
Amount due to a non-controlling shareholder of a subsidiary	26	2,700	8,845
Tax payable		3,172	2,967
Secured bank borrowings	27	672,444	646,788
Bank overdrafts	27	41,500	–
Derivative liabilities	28	345	499
Lease liabilities/obligations under finance lease	29, 30	3,024	52
		837,219	758,562
Net current assets		88,709	97,277
		884,761	715,727

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Capital and reserves			
Share capital	31	**51,432**	47,847
Reserves		**811,827**	664,080
Equity attributable to owners of the Company		**863,259**	711,927
Non-controlling interests		**2,637**	(1,059)
Total equity		**865,896**	710,868
Non-current liabilities			
Deferred tax liabilities	32	**5,370**	4,703
Lease liabilities/obligations under finance lease	29, 30	**8,594**	156
Secured bank borrowings	27	**4,901**	–
		18,865	4,859
		884,761	715,727

The consolidated financial statements on page 101 to 185 were approved and authorised for issue by the board of directors on 26 March 2020 and are signed on its behalf of:

Kwok Yau Lung Anthony
DIRECTOR

Chan Kwok Keung
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Group											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note a)	Property revaluation reserve HK$'000	Share award reserve HK$'000	Share held for share award scheme HK$'000	Other reserve HK$'000 (note b)	Translation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	47,847	366,950	(53,992)	79,057	–	–	(76)	(17,266)	249,932	672,452	(650)	671,802
Profit (loss) for the year	–	–	–	–	–	–	–	–	110,975	110,975	(364)	110,611
Surplus on revaluation of land and buildings	–	–	–	13,928	–	–	–	–	–	13,928	–	13,928
Deferred tax arising from revaluation of land and buildings	–	–	–	(1,232)	–	–	–	–	–	(1,232)	–	(1,232)
Exchange differences arising from translation of foreign operations	–	–	–	–	–	–	–	(3,285)	–	(3,285)	(45)	(3,330)
Total comprehensive income (expense) for the year	–	–	–	12,696	–	–	–	(3,285)	110,975	120,386	(409)	119,977
Release of reserve upon disposal of land and buildings	–	–	–	(96)	–	–	–	–	96	–	–	–
Employee share award scheme:												
– Value of employee services	–	–	–	–	2,919	–	–	–	–	2,919	–	2,919
– Shares withheld for share award scheme	–	–	–	–	–	(8,000)	–	–	–	(8,000)	–	(8,000)
– Vesting of shares of share award scheme	–	–	–	–	(2,000)	2,000	–	–	–	–	–	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	–	–	–	(75,830)	(75,830)	–	(75,830)
At 31 December 2018	47,847	366,950	(53,992)	91,657	919	(6,000)	(76)	(20,551)	285,173	711,927	(1,059)	710,868
Profit (loss) for the year	–	–	–	–	–	–	–	–	90,328	90,328	(4,128)	86,200
Surplus on revaluation of land and buildings	–	–	–	12,482	–	–	–	–	–	12,482	–	12,482
Deferred tax arising from revaluation of land and buildings	–	–	–	(879)	–	–	–	–	–	(879)	–	(879)
Exchange differences arising from translation of foreign operations	–	–	–	–	–	–	–	(2,946)	–	(2,946)	(11)	(2,957)
Total comprehensive income (expense) for the year	–	–	–	11,603	–	–	–	(2,946)	90,328	98,985	(4,139)	94,846
Capital contribution from non-controlling shareholder of a subsidiary *(note 41)*	–	–	–	–	–	–	–	–	–	–	7,835	7,835
Employee share award scheme:												
– Value of employee services	–	–	–	–	3,527	–	–	–	–	3,527	–	3,527
– Vesting of shares of share award scheme	–	–	–	–	(2,603)	2,603	–	–	–	–	–	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	–	–	–	(21,857)	(21,857)	–	(21,857)
New ordinary shares issue by way of placing *(note 31)*	2,581	48,848	–	–	–	–	–	–	–	51,429	–	51,429
New ordinary shares issue under specific mandate *(note 31)*	1,004	18,994	–	–	–	–	–	–	–	19,998	–	19,998
Transaction costs attributable to issue of new ordinary shares	–	(750)	–	–	–	–	–	–	–	(750)	–	(750)
At 31 December 2019	51,432	434,042	(53,992)	103,260	1,843	(3,397)	(76)	(23,497)	353,644	863,259	2,637	865,896

Notes:

a. Capital reserve represents (i) the contribution from an intermediate holding company to Evergreen Products Factory Limited ("**Evergreen Factory**"), a wholly owned subsidiary of the Group; and (ii) the difference between the nominal value of the share capital of Evergreen Factory at the date on which it was acquired by Evergreen Enterprise Investment Limited and the deemed consideration settled by issuance of 99,999,999 ordinary shares and 36,908,517 Series A redeemable convertible preferred shares of the Company pursuant to the group reorganisation in prior year.

b. Other reserve represents the effect of change in ownership in a subsidiary when there was no change in control in prior year.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**86,794**	110,972
Adjustments for:		
Depreciation of property, plant and equipment	**38,573**	27,343
Depreciation of right-of-use assets	**4,572**	–
Amortisation of prepaid lease payments	**–**	342
Changes in fair value of derivative liabilities	**(154)**	(234)
Bank interest income	**(381)**	(279)
Gain on disposal of property, plant and equipment	**–**	(6,796)
Loss on disposal of right-of-use assets	**10**	–
Finance costs	**20,677**	15,524
Share-based payment expense	**3,527**	2,919
Changes in fair value of the financial assets at fair value through profit or loss	**(3,739)**	(1,081)
Operating cash flows before movements in working capital	**149,879**	148,710
Increase in inventories	**(46,921)**	(45,849)
Increase in trade and other receivables	**(47,856)**	(48,381)
(Decrease) increase in trade and other payables	**(4,257)**	24,963
(Decrease) increase in contract liabilities	**(1,247)**	4,638
Cash generated from operations	**49,598**	84,081
Income tax paid	**(589)**	(317)
NET CASH FROM OPERATING ACTIVITIES	**49,009**	83,764
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(160,789)**	(170,370)
Deposit paid for acquisition of property, plant and equipment	**(18,664)**	(21,321)
Placement of pledged bank deposits	**(8,386)**	–
Payments for rental deposits	**(457)**	–
Payments for new insurance contracts	**(366)**	–
Withdrawal of pledged bank deposits	**74**	15,754
Proceeds from disposal of right-of-use assets	**223**	–
Interest received	**368**	279
Proceeds from disposal of property, plant and equipment	**461**	7,204
Receipts from withdrawal of insurance contracts	**3,110**	1,545
NET CASH USED IN INVESTING ACTIVITIES	**(184,426)**	(166,909)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 *HK$'000*	2018 *HK$'000*
FINANCING ACTIVITIES		
New mortgage and short-term loans raised	**294,916**	271,325
Proceeds from issue of shares	**71,427**	–
Drawdown of bank overdrafts	**41,500**	–
New trust receipt loans and discounted bills raised	**36,007**	106,668
Advance from a related company	**20,000**	30,000
Advance from a non-controlling shareholder of a subsidiary	**1,690**	1,119
Transaction cost attributable to issue of new ordinary shares	**(750)**	–
Repayment of lease liabilities	**(3,014)**	–
Dividends paid	**(21,857)**	(75,830)
Interest paid	**(36,530)**	(25,193)
Repayment of mortgage and short-term loans	**(300,366)**	(237,087)
Repayment of finance lease	**–**	(7)
Payment for purchase of shares for share award scheme	**–**	(8,000)
NET CASH FROM FINANCING ACTIVITIES	**103,023**	62,995
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(32,394)**	(20,150)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**68,873**	91,154
Effect of foreign exchange rate changes	**(370)**	(2,131)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**36,109**	68,873
Represented by		
Bank balances and cash	**36,109**	68,873

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

Evergreen Products Group Limited (the "**Company**") is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company's immediate holding company is Evergreen Enterprise Holdings Limited, a company which was incorporated in the British Virgin Islands (the "**BVI**"). The Company's ultimate holding company is Golden Evergreen Limited ("**GEL**"), a company incorporated in the BVI. GEL is wholly owned by HSBC International Trustee Limited, the trustee of the Felix Family Trust and CLC Family Trust (collectively, the "**Trust**"). The beneficiaries and settlor of the Trust, including Mr. Chang Chih Lung, Mr. Chang Yoe Chong Felix and their family members, are considered as the controlling shareholders of the Company. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (hereinafter collectively refer as the "**Group**") are the manufacturing and trading of hair products.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). The Company's functional currency is the United States dollars (the "**US$**"). The reason for selecting HK$ as its presentation currency is because majority of the Company's shareholders are located in Hong Kong.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 16 "*LEASES*"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 16 "*LEASES*" (CONTINUED)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 4.75% to 7.20%.

	Note	**At 1 January 2019** ***HK$'000***
Operating lease commitments disclosed as at 31 December 2018		**19,630**
Lease liabilities discounted at relevant incremental borrowing rates		**9,391**
Less: Practical expedient – leases with lease term ending within 12 months from the date of initial application		**(422)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		**8,969**
Add: Obligations under finance lease recognised at 31 December 2018	*(b)*	**208**
Lease liabilities as at 1 January 2019		**9,177**
Analysed as		
Current		**822**
Non-current		**8,355**
		9,177

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 16 "*LEASES*" (CONTINUED)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	**Right-of-use assets** ***HK$'000***
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**8,969**
Reclassified from prepaid lease payments	*(a)*	**18,756**
Assets previously under finance lease included in property, plant and equipment under HKAS 17	*(b)*	**260**
Adjustments on rental deposits at 1 January 2019	*(c)*	**314**
		28,299

Notes:

a. Upfront payments for leasehold lands in the People's Republic of China (the "**PRC**") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$344,000 and HK$18,412,000 respectively were reclassified to right-of-use assets.

b. In relation to assets previously under finance lease, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK$260,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance lease of HK$208,000 to lease liabilities as current liabilities at 1 January 2019.

c. Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$314,000 was adjusted to refundable rental deposits paid and right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 16 "*LEASES*" (CONTINUED)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 *HK$'000*	Adjustments *HK$'000*	**Carrying amounts under HKFRS 16 at 1 January 2019** ***HK$'000***
Non-current Assets			
Property, plant and equipment	553,951	(260)	**553,691**
Right-of-use assets	–	28,299	**28,299**
Prepaid lease payments	18,412	(18,412)	**–**
Current Assets			
Trade and other receivables	269,986	(314)	**269,672**
Prepaid lease payments	344	(344)	**–**
Current Liabilities			
Lease liabilities	–	822	**822**
Obligations under finance lease	52	(52)	**–**
Non-current Liabilities			
Lease liabilities	–	8,355	**8,355**
Obligations under finance lease	156	(156)	**–**

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. The application of HKFRS 16 has had no material impact on the Group's consolidated financial statements for the year ended 31 December 2019.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 AMENDMENTS TO HKFRSs *ANNUAL IMPROVEMENTS TO HKFRSs 2015-2017 CYCLE*

The annual improvement packages included amendments to HKAS 23 "Borrowing Costs" which clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The amendments have had no material impact on the Group's consolidated financial statements for the year ended 31 December 2019.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, "the Amendments to References to the Conceptual Framework in HKFRS Standards", will be effective for annual periods beginning on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 AMENDMENTS TO HKFRSs *ANNUAL IMPROVEMENTS TO HKFRSs 2015-2017 CYCLE* (CONTINUED)

Amendments to HKAS 1 and HKAS 8 "Definition of Material" (Continued)

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group's annual period beginning on or after 1 January 2020. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

Except for the amendments to HKFRSs and New Framework mentioned above, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rule Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and properties that are measured at fair value or revalued amounts at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

LEASES

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend 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 the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease modifications (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars.

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

For the purpose of presenting the consolidated financial statements, (i) the assets and liabilities of the Group's foreign operations are translated into US$; and (ii) the assets and liabilities of the Group denominated or translated in US$ are then translated into the presentation currency of the Group (i.e. Hong Kong dollars), using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the asset are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. All other borrowing costs are recognised as and included in finance costs in the profit or loss in the period in which they are incurred.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans including state-managed retirement benefits scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from the shares held for the share award scheme. Accordingly, the related expense of the granted shares vested is reversed from the share award reserve. The difference arising from such transfer is debited/credited to accumulated profits. At the end of the reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share award reserve.

When shares granted are lapsed, the amount previously recognised in share held for share award reserve will be transferred to retained profits.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION (CONTINUED)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly to equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than leasehold land, freehold land and buildings and construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at fair value at the date of the revaluation less subsequent accumulated depreciation and accumulated impairment losses, if any. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress is stated at cost less any identified impairment loss, as appropriate. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

Depreciation is provided to write off the cost or revalued amounts of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

LEASEHOLD LAND AND BUILDING

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” (upon application of HKFRS 16) or “prepaid lease payments” (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("**FVTPL**") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including trade and other receivables, pledged bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

(ii) Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminated or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities and equity instruments (Continued)

Financial liabilities at amortised cost

Financial liabilities including trade payables, secured bank borrowings, bank overdrafts. amount due to a related company and amount due to a non-controlling shareholder of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF ESTIMATE UNCERTAINTY

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

KEY SOURCES OF ESTIMATE UNCERTAINTY (CONTINUED)

Fair value of leasehold land and buildings

Leasehold land and buildings are carried at their revalued amount of HK$138,248,000 (2018: HK$128,339,000) at the end of the reporting period. The revalued amount of the leasehold land and buildings was based on valuation on the properties conducted by an independent qualified valuer using market approach, as detailed in note 16. The valuation conducted by independent qualified valuer by involves certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in fair value of the Group's leasehold land and buildings and corresponding adjustments to the amount reported in other comprehensive income.

Allowances for inventories

As disclosed in note 20 to the consolidated financial statements, the Group's inventories are amounted to HK$476,613,000 as at 31 December 2019 (2018: HK$430,889,000). The management of the Group reviews the usage of the inventories at the end of year and makes provision for obsolete items that are no longer suitable for production or saleable in the market with reference to the current market conditions, estimated selling prices of the inventories, ageing analysis and subsequent sales/usage of the inventories. The directors of the Company are satisfied that no provision is required to be made for the years ended 31 December 2019 and 2018.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables, which are individually insignificant. The provision rates are based on internal credit ratings considering the individual debtor's historical default rate, adjusted with factors that are specific as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 39 and 21 respectively.

5. REVENUE

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue represents amount received and receivable for the sales of hair products and net of discounts and sales related taxes during the year.

	2019 ***HK$'000***	2018 *HK$'000*
Group revenue by products		
Wigs, hair accessories and others	**554,762**	526,498
High-end human hair extensions	**184,508**	165,638
Halloween products	**38,135**	40,034
	777,405	732,170

All revenue is recognised at a point in time.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery). The normal credit period is 90 days upon delivery. A contract liability is recognised for receipt in advance for sales in which revenue has yet been recognised.

All the Group's sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The chief executive officer of the Company, being the chief operating decision maker ("**CODM**"), regularly reviews revenue analysis by types of products, including wigs, hair accessories and other, high-end human hair extensions and Halloween products when making decisions about allocating resources and assessing performance of the Group. Other than revenue analysis, the CODM reviews the profit for the year of the Group as a whole to make decisions about performance assessment and resources allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating Segments" and accordingly, no separate segment information is prepared.

No analysis of segment assets and segment liabilities is presented as the Group's CODM does not regularly review such information.

6. SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

Revenue from the external customers, based on the location of delivery to customers are as follows:

	Revenue from external customers	
	2019	2018
	HK$'000	*HK$'000*
The United States of America (the "USA")	**610,439**	594,346
The PRC	**17,609**	50,993
The United Kingdom (the "UK")	**19,480**	32,113
Germany	**74,883**	4,088
Others	**54,994**	50,630
	777,405	732,170

Revenue from the customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2019	2018
	HK$'000	*HK$'000*
Customer A[1]	**235,117**	138,838
Customer B[1]	**114,104**	103,635
Customer C[2]	**N/A**	93,553

1 The owner of Customer A is a relative of the owner of Customer B.

2 The revenue of Customer C in 2019 was not more than 10% of the total revenue of the Group.

6. SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION (CONTINUED)

An analysis of the Group's non-current assets other than financial assets by their physical geographical location is as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Bangladesh	**578,422**	410,660
Hong Kong	**96,146**	89,443
The PRC	**49,861**	51,686
The USA	**19,610**	19,592
Japan	**2,168**	2,145
Thailand	**8,131**	7,317
Ukraine	**15,953**	12,841
	770,291	593,684

Note: Non-current assets excluded financial assets at FVTPL.

7. OTHER INCOME

	2019 ***HK$'000***	2018 *HK$'000*
The amount represents:		
Bank interest income	**381**	279
Processing income	**140**	85
Rental income from warehouses	**983**	982
Sundry income	**1,364**	1,541
	2,868	2,887

8. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Changes in fair value of the financial assets at FVTPL	3,739	1,081
Changes in fair value of derivative liabilities	154	234
Gain on disposal of property, plant and equipment	–	6,796
Loss on disposal of right-of-use assets	(10)	–
Net foreign exchange (losses) gains	(420)	115
	3,463	8,226

9. OTHER EXPENSES

	2019 HK$'000	2018 HK$'000
Donation expense	729	1,333
	729	1,333

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	35,701	25,193
Less: amount capitalised in the cost of qualifying assets	(15,853)	(9,669)
	19,848	15,524
Interest on lease liabilities	829	–
	20,677	15,524

11. PROFIT BEFORE TAX

	2019 **HK$'000**	2018 HK$'000
Profit before tax has been arrived at after charging:		
Amortisation of prepaid lease payments	**–**	342
Depreciation of property, plant and equipment	**38,573**	27,343
Depreciation of right-of-use assets	**4,572**	–
Total depreciation and amortisation	**43,145**	27,685
Directors' emoluments *(note 12)*		
– fee	**1,168**	1,000
– salaries and other benefits	**3,780**	2,696
– equity settled share-based expenses	**984**	742
– retirement benefits scheme contributions	**93**	78
	6,025	4,516
Staff's salaries and other benefits	**293,925**	251,073
Staff's equity settled share-based expenses	**2,543**	2,177
Staff's retirement benefits scheme contributions	**19,217**	17,956
Total staff costs	**321,710**	275,722
Auditor's remuneration	**1,410**	1,830
Cost of inventories recognised as expense (included in cost of goods sold)	**520,397**	476,405
Operating lease payments in respect of rented premises	**–**	4,230

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	2019					2018				
	Fees	Salaries and other benefits	Equity settled share-based expenses	Retirement benefits scheme contributions	Total	Fees	Salaries and other benefits	Equity settled share-based expenses	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors *(note iv)*										
Mr. Chang Yoe Chong, Felix *(note vii)*	200	–	–	10	210	200	–	–	10	210
Mr. Kwok Yau Lung, Anthony	–	744	167	18	929	–	726	167	18	911
Mr. Chan Kwok Keung	–	1,518	375	18	1,911	–	1,107	375	18	1,500
Mr. Hui Wing Ki *(note iii)*	–	696	167	18	881	–	55	–	2	57
Ms. Jia Ziying	–	221	200	16	437	–	123	200	16	339
Mr. Li Yan Bo	–	201	75	13	289	–	110	–	14	124
Non-executive directors *(note v)*										
Mr. Chang Chih Lung *(note ii)*	–	–	–	–	–	–	175	–	–	175
Mr. Chan Lau Yui, Kevin	–	200	–	–	200	–	200	–	–	200
Mr. Chan Hoi Sing, Harold	–	200	–	–	200	–	200	–	–	200
Independent non-executive directors *(note vi)*										
Mr. Lau Ip Keung Kenneth	200	–	–	–	200	200	–	–	–	200
Mr. Sin Hendrick	200	–	–	–	200	200	–	–	–	200
Dr. Yung Bruce Pak Keung	200	–	–	–	200	200	–	–	–	200
Mr. Szeto Yuk Ting	200	–	–	–	200	200	–	–	–	200
Ir. Cheung Siu Wa *(note i)*	168	–	–	–	168	–	–	–	–	–
	1,168	3,780	984	93	6,025	1,000	2,696	742	78	4,516

Notes:

(i) Ir. Cheung Siu Wa was appointed as an independent non-executive director of the Company on 18 February 2019.

(ii) Mr. Chang Chih Lung resigned as non-executive director of the Company on 15 November 2018.

(iii) Mr. Hui Wing Ki was appointed as an executive director of the Company on 15 November 2018.

(iv) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Notes: (Continued)

(v) The non-executive directors' emoluments shown above were for their service in connection with management of the affairs of the Company and the Group.

(vi) The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(vii) Mr. Chang Yoe Chong, Felix acts as an executive director, Chief Executive Officer and also the Chairman of the Company and the Group.

The five highest paid individuals included 3 directors (2018: 2 directors) of the Company for the year ended 31 December 2019, details of whose emoluments are included above. The emoluments of the remaining highest paid individual(s) during the year were as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Employees		
– salaries and other benefits	**1,642**	2,087
– equity settled share-based expenses	**561**	727
– retirement benefits scheme contributions	**36**	54
	2,239	2,868

Their emoluments were within the following bands:

	2019 **No. of employees**	2018 No. of employees
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	2	3

No emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors has waived or agreed to waive any emoluments for both years.

13. INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
The taxation charge comprises:		
Current tax:		
Hong Kong	–	35
The PRC Enterprise Income Tax ("**EIT**")	**184**	–
Other jurisdictions	**622**	598
	806	633
Deferred tax *(note 32)*		
Current year	**(212)**	(272)
	594	361

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

The Group is engaged in the manufacturing of certain hair products through several processing factories in the PRC under contract and import processing arrangement which is effective for both years.

Accordingly, under such 50:50 onshore/offshore arrangement between the Group and the contract processing factories, certain profits of the Group are not taxable under Hong Kong Profits Tax for both years.

Meanwhile, the profit derived under the import processing arrangement are treated as 100% taxable under Hong Kong Profits Tax for both years. In addition, the processing factories of the Group are subject to the PRC EIT at a rate of 25% on the actual profit generated in the PRC.

13. INCOME TAX EXPENSE (CONTINUED)

No Bangladesh income tax was provided in the consolidated financial statements as one of the subsidiaries operating in Bangladesh is exempted from income tax for 10 financial years from the date of commencement of commercial operations (i.e. 10 May 2010) up to 2020 while the remaining entities in Bangladesh have no assessable profits for both years.

For Japan, the applicable prevailing tax rate was 27% for both years.

Taxation arising from other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the deferred taxation are set out in note 32.

The income tax expenses for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Profit before tax	**86,794**	110,972
Tax at the Hong Kong Profits Tax rate of 16.5% (2018: 16.5%)	**14,321**	18,310
Tax effect of expenses not deductible for tax purpose	**6,924**	3,452
Tax effect of income not taxable for tax purpose	**(69)**	(1,161)
Tax effect of tax exemptions granted to a subsidiary operated in Bangladesh	**(39,078)**	(29,626)
Tax effect of tax losses not recognised	**13,493**	4,842
Tax effect of deductible temporary differences not recognised	**663**	160
Effect of different tax rate applicable to subsidiaries operating in the other jurisdictions	**283**	635
Effect of loss under 50:50 arrangement	**4,150**	3,509
Others	**(93)**	240
Income tax expense for the year	**594**	361

14. DIVIDENDS

	2019 **HK$'000**	2018 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 interim dividend paid – HK1.00 cent (2018: 2018 interim dividend of HK4.20 cents) per share	**6,482**	25,830
2018 final dividend of – HK2.50 cents (2018: 2017 final dividend of HK8.13 cents) per share	**15,375**	50,000
	21,857	75,830

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK2.0 cents (2018: final dividend in respect of the year ended 31 December 2018 of HK2.50 cents) per ordinary share, in an aggregate amount of HK$13,222,000 (2018: HK$15,375,000), has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2019	2018
	HK$'000	*HK$'000*
Earnings attributable to owner of the Company:		
Earnings for the purpose of calculating basic and diluted earnings per share	**90,328**	110,975

	2019	2018
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**621,664,000**	610,108,000
Effect of dilutive potential ordinary share:		
Share award scheme	**2,268,000**	4,679,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**623,932,000**	614,787,000

The weighted average number of ordinary shares for the purpose of basic earnings per share shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company as set out in Note 33.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Freehold land and factory buildings HK$'000	Construction in progress HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST OR VALUATION								
At 1 January 2018	102,666	216,081	61,684	75,268	5,025	16,680	13,756	491,160
Additions	16,388	11,941	128,438	31,922	1,396	4,345	8,239	202,669
Disposals	(375)	–	–	(573)	–	(752)	(3)	(1,703)
Transfers to freehold land and factory buildings	–	264	(264)	–	–	–	–	–
Revaluation increase arising on revaluation	10,273	–	–	–	–	–	–	10,273
Exchange adjustments	(613)	(1,067)	507	(418)	(47)	(193)	(259)	(2,090)
At 31 December 2018	128,339	227,219	190,365	106,199	6,374	20,080	21,733	700,309
Adjustments upon application of HKFRS 16 *(note 2)*	–	–	–	–	–	(336)	–	(336)
At 1 January 2019 (restated)	128,339	227,219	190,365	106,199	6,374	19,744	21,733	699,973
Additions	–	9,255	173,987	12,370	201	318	1,832	197,963
Disposals	–	(461)	–	(118)	(11)	(635)	–	(1,225)
Transfers to freehold land and factory buildings	–	16,367	(16,367)	–	–	–	–	–
Revaluation increase arising on revaluation	7,813	–	–	–	–	–	–	7,813
Exchange adjustments	2,096	(3,179)	(3,326)	(1,105)	(62)	(195)	565	(5,206)
At 31 December 2019	138,248	249,201	344,659	117,346	6,502	19,232	24,130	899,318
Comprising								
At cost	–	249,201	344,659	117,346	6,502	19,232	24,130	761,070
At professional valuation	138,248	–	–	–	–	–	–	138,248
At 31 December 2019	138,248	249,201	344,659	117,346	6,502	19,232	24,130	899,318
DEPRECIATION								
At 1 January 2018	–	52,071	–	45,203	3,077	13,444	11,954	125,749
Provided for the year	3,664	14,170	–	7,229	509	1,582	189	27,343
Disposals	–	–	–	(573)	–	(752)	–	(1,325)
Eliminated on revaluation	(3,655)	–	–	–	–	–	–	(3,655)
Exchange adjustments	(9)	(788)	–	(469)	(56)	(184)	(248)	(1,754)
At 31 December 2018	–	65,453	–	51,390	3,530	14,090	11,895	146,358
Adjustments upon application of HKFRS 16 *(note 2)*	–	–	–	–	–	(76)	–	(76)
At 1 January 2019 (restated)	–	65,453	–	51,390	3,530	14,014	11,895	146,282
Provided for the year	4,626	14,260	–	15,690	535	2,310	1,152	38,573
Disposals	–	–	–	(118)	(11)	(635)	–	(764)
Eliminated on revaluation	(4,669)	–	–	–	–	–	–	(4,669)
Exchange adjustments	43	(1,006)	–	(525)	(42)	(172)	(82)	(1,784)
At 31 December 2019	–	78,707	–	66,437	4,012	15,517	12,965	177,638
Carrying values representing								
Cost	–	170,494	344,659	50,909	2,490	3,715	11,165	583,432
Valuation	138,248	–	–	–	–	–	–	138,248
At 31 December 2019	138,248	170,494	344,659	50,909	2,490	3,715	11,165	721,680
Carrying values representing								
Cost	–	161,766	190,365	54,809	2,844	5,990	9,838	425,612
Valuation	128,339	–	–	–	–	–	–	128,339
At 31 December 2018	128,339	161,766	190,365	54,809	2,844	5,990	9,838	553,951

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2018, the book value of motor vehicle includes an amount of HK$260,000 in respect of asset held under finance lease.

The above items of property, plant and equipment other than freehold land and construction in progress are depreciated on a straight-line basis, after taking into account the estimated residual value, at the following rates per annum:

Factory buildings, leasehold land and buildings	4% to 6%
Machinery and equipment, furniture and fixtures and leasehold improvements	20% or over the respective lease term, which is shorter
Motor vehicles	25%

FAIR VALUE MEASUREMENT OF THE GROUP'S LAND AND BUILDINGS

In estimating the fair value of the Group's land and buildings by applying the appropriate valuation techniques and inputs for fair value measurements, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation. The directors of the Company work closely with qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

The leasehold land and buildings, office premises and carparks of the Group, in Hong Kong and the PRC, as at 31 December 2019 and 31 December 2018 and the buildings and office premises of the Group in the United States, Japan, Thailand and Ukraine as at 31 December 2019 and 31 December 2018 were revalued by Roma Appraisals Limited ("**ROMA**") and Greater China Appraisal Limited ("**Greater China**") respectively. The registered office of ROMA and Greater China are at 22/F, China Overseas Building, 139 Hennessy Road, Wan Chai, Hong Kong and Room 2703, 27/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong respectively. Both ROMA and Greater China are independent qualified professional valuers. ROMA and Greater China, which are not connected with the Group, are members of Hong Kong Institute of Surveyors ("**HKIS**"). The valuations, which conform to the Royal Institute of Chartered Surveyors ("**RICS**") Valuation Standards 2018 published by the RICS and the HKIS Valuation Standard (2018 Edition) published by the HKIS, were arrived at using the market approach. The valuation has been adopted by the directors in the consolidated financial statements and the property revaluation increase of HK$12,482,000 (2018: HK$13,928,000) have been credited to the property revaluation reserve for the year ended 31 December 2019.

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE MEASUREMENT OF THE GROUP'S LAND AND BUILDINGS (CONTINUED)

The fair value measurements of the Group's leasehold land and buildings as at 31 December 2019 and 31 December 2018 using significant unobservable input (Level 3) are disclosed as below.

Description	Fair value at 31.12.2019 HK$'000	Fair value at 31.12.2018 HK$'000	Valuation techniques	Significant unobservable inputs	Sensitivity
Leasehold land and industrial buildings in Hong Kong	**87,190**	79,900	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from leverage rate of HK$3,538 to HK$5,000 (2018: HK$4,103 to HK$4,743) per square feet	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Car parks in Hong Kong	**990**	990	Market approach	Market unit rate, mainly taking into account the time, location and floor level, between the comparables, which is ranging from HK$980,000 to HK$1,000,000 (2018: HK$1,150,000 to HK$1,480,000) per slot	An increase in the market unit rate used would result in an increase in the fair value of the car parks, and vice versa.
Residential buildings in the PRC	**7,882**	8,367	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from RMB9,664 to RMB70,833 (2018: RMB10,099 to RMB79,221) per square meter	A significant increase in the market unit rate used would result in a significant increase in the fair value of the properties, and vice versa.
Offices in the PRC	**2,861**	2,881	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from RMB16,010 to RMB62,802 (2018: RMB18,978 to RMB85,714) per square meter	A significant increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Car parks in the PRC	**112**	319	Market approach	Market unit rate, mainly taking into account the time, location and floor level, between the comparables, which is ranging from RMB180,000 to RMB186,000 (2018: RMB200,000 to RMB220,000) per slot	An increase in the market unit rate used would result in an increase in the fair value of the car parks, and vice versa.

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE MEASUREMENT OF THE GROUP'S LAND AND BUILDINGS (CONTINUED)

Description	Fair value at		Valuation techniques	Significant unobservable inputs	Sensitivity
	31.12.2019	31.12.2018			
	HK$'000	*HK$'000*			
Offices in the Japan	**2,090**	2,048	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from YEN167,840 to YEN273,681 (2018: YEN179,000 to YEN189,000) per square meter	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Office in the United States	**18,611**	18,230	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from US$50 to US$447 (2018: US$253 to US$558)	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Office in the Thailand	**7,127**	6,387	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from Baht43,404 to Baht61,250 (2018: Baht36,000 to Baht50,000)	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
Office in the Ukraine	**11,385**	9,217	Market approach	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from US$1,297 to US$1,492 (2018: US$710 to US$1,250)	An increase in the market unit rate used would result in an increase in the fair value of the properties, and vice versa.
	138,248	128,339			

There were no transfers into or out of Level 3 during both years.

If the leasehold land and buildings of the Group had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation and their carrying amount would have been approximately HK$58,819,000 (2018: HK$60,592,000) as at 31 December 2019.

17. RIGHT-OF-USE ASSETS

	Leasehold lands *HK$'000*	Leasehold land and buildings *HK$'000*	Motor vehicles *HK$'000*	Factory buildings *HK$'000*	Total *HK$'000*
As at 1 January 2019					
Carrying amount	27,896	–	260	143	28,299
As at 31 December 2019					
Carrying amount	26,503	2,432	–	106	29,041
For the year ended 31 December 2019					
Depreciation charge	2,195	2,244	27	106	4,572
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16					398
Total cash outflow for leases					4,241
Additions to right-of-use assets					5,547
Disposal of right-of-use assets					(233)

For both years, the Group leases leasehold lands, leasehold land and buildings, motor vehicles and factory buildings for its operations. Lease contracts are entered into for fixed term of 2 to 49 years. Certain leases of equipment was accounted for as finance lease during the year ended 31 December 2018 and carried interest at 6.03%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for leased properties. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

RESTRICTIONS OR COVENANTS ON LEASES

In addition, lease liabilities of HK$11,618,000 are recognised with related right-of-use assets of HK$11,682,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

18. PREPAID LEASE PAYMENTS

	2018 *HK$'000*
The Group's prepaid lease payments comprise:	
Leasehold land in the PRC:	
Non-current asset	18,412
Current asset	344
	18,756

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into certain life insurance contracts with Mr. Chang Yoe Chong, Felix, a director of the Company. Under the policies, Evergreen Factory, being the beneficiary and policy holder, is required to pay an upfront payment for the contracts. Evergreen Factory may request a partial surrender or full surrender of the contracts at any time and receive cash back based on the value of the contracts at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged (the "**Cash Value**"). If such withdrawal is made at any time during the first to the eighteenth policy year, as appropriate, a pre-determined specified surrender charge would be imposed.

The deposits placed for the life insurance contracts carries guaranteed interests at interest rates ranging from 3.65% to 5.00% (2018: 3.65% to 5.20%) per annum plus a premium determined by counterparty during the tenures of the contracts.

Particulars of the insurance contracts are as follows:

Insured sum *HK$'000*	Upfront payment *HK$'000*	Interest rates
2019		
4,588 to 35,100	406 to 7,761	3.65% to 5.00% per annum
2018		
4,588 to 35,100	281 to 7,761	3.65% to 5.20% per annum

In the opinion of the directors, the carrying amount of the life insurance contracts approximates its fair value as at the end of the reporting period.

20. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**366,957**	342,430
Work in progress	**51,756**	51,272
Finished goods	**57,900**	37,187
	476,613	430,889

21. TRADE AND OTHER RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Trade receivables		
– contracts with customers	**183,607**	162,473
Other receivables	**26,111**	19,645
Purchase rebate receivables	**19,786**	15,953
Other tax receivables	**1,293**	4,733
Prepayments	**10,754**	9,705
Deposits paid to suppliers	**77,608**	57,028
Deposits for acquisition of property, plant and equipment	**18,664**	21,321
Property rental deposits	**906**	449
	338,729	291,307
Analysis for reporting purpose as		
Non-current assets	**19,570**	21,321
Current assets	**319,159**	269,986
	338,729	291,307

Rental deposits paid included in other receivables were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in Note 2.

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$126,821,000.

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

	2019	2018
	HK$'000	*HK$'000*
0 – 60 days	**137,770**	119,487
61 – 90 days	**34,233**	27,579
91 – 120 days	**5,234**	10,895
Over 120 days	**6,370**	4,512
	183,607	162,473

The Group normally allows a credit period up to 90 days to its customers. A longer credit period may be granted to large or long established customers with good payment history.

Before accepting any new customers, the Group has an internal credit control system to assess the potential customers' credit quality and the board of directors has delegated the management to be responsible for determination of credit limits and credit approvals for customers. Limits attributed to customers are reviewed periodically.

As at 31 December 2019, trade receivables of HK$35,970,000 (2018: HK$14,653,000) are past due. Such receivables relate to a number of customers of which substantial subsequent settlements were made and the credit quality of these customers had not been deteriorated. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the years ended 31 December 2018 and 2019 are set out in note 39.

Most of the Group's trade receivables are denominated in functional currency of the relevant group entities.

22. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged for banking facilities granted to the Group and are therefore classified as current assets.

Included in pledged bank deposits are the following amounts denominated in currency other than functional currencies of the relevant group entities:

	2019	2018
	HK$'000	*HK$'000*
Hong Kong dollars	**12,911**	59,500

The deposits carry fixed interest rate ranging from 0.001% to 1.97% (2018: 0.001% to 1.89%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

23. BANK BALANCES AND CASH

Included in bank balances and cash are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2019	2018
	HK$'000	*HK$'000*
Hong Kong dollars	**8,844**	13,063

Bank balances and cash comprise cash held by the Group and short-term bank deposits which carry interest at prevailing market rates of 0% to 1.9% (2018: 0% to 2.3%) per annum.

24. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**36,568**	38,582
Accrued staff costs	**19,721**	20,141
Accruals and other payables	**4,354**	6,050
	60,643	64,773

No credit period on purchases of goods is granted but the Group will normally settle within 60 days.

The following is an aged analysis of trade payables presented based on invoice date at the end of each reporting period:

	2019	2018
	HK$'000	*HK$'000*
0 – 60 days	**36,568**	38,582

Included in the Group's trade payables are the following amounts denominated in currency other than the functional currency of the relevant group entities:

	2019	2018
	HK$'000	*HK$'000*
Hong Kong dollars	**10,166**	7,281

25. CONTRACT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Receipt in advance for sale of hair products	**3,391**	4,638

Contract liabilities represent amounts received in advance for sale of hair products. Contract liabilities as at the end of each reporting period are recognised as revenue in subsequent year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of production, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives 30% to 50% deposit on acceptance of new customers' order.

26. AMOUNTS DUE TO A RELATED COMPANY/A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amounts are non-trade nature, unsecured, interest-free and repayable on demand for both years.

Amount due to a related company represented the amount due to Hopcom Software Company Limited in which Mr. Chang Chih Lung and Mr. Chang Yoe Chong, Felix are also the directors and shareholders of the Company.

27. SECURED BANK BORROWINGS/BANK OVERDRAFTS

	2019	2018
	HK$'000	*HK$'000*
Bank overdrafts	**41,500**	–
Trust receipts loans and discounted bills	**297,000**	260,993
Mortgage and short-term loans	**380,345**	385,795
	718,845	646,788

The carrying amounts of the borrowings are analysed as follows:

Denominated in	**2019**	2018	Interest rate
	HK$'000	*HK$'000*	
HK$	**409,029**	357,486	Hong Kong Dollar Prime Rate minus 1.85% to Hong Kong Dollar Prime Rate plus 5% or Hong Kong Interbank Offered Rate ("**HIBOR**") plus 1.2% to HIBOR plus 3.5% or fixed interest rate at 5.65% (2018: Hong Kong Dollar Prime Rate minus 2.5% to Hong Kong Dollar Prime Rate plus 1% or HIBOR plus 2.75%)
US$	**309,816**	289,302	London Interbank Offered Rate ("**LIBOR**") plus 2.5% to LIBOR plus 4% (2018: LIBOR plus 3%)

Bank borrowings with repayment on demand clause are classified as current liabilities on the consolidated statement of financial position.

27. SECURED BANK BORROWINGS/BANK OVERDRAFTS (CONTINUED)

The Group's bank loans are payable as follows:

	2019 **HK$'000**	2018 HK$'000
Bank overdrafts	**41,500**	–
Bank borrowings are repayable (Note)		
Within 1 year	**617,084**	546,953
After 1 year but within 2 years	**26,232**	58,251
After 2 years but within 5 years	**22,123**	32,341
After 5 years	**11,906**	9,243
Total bank borrowings	**677,345**	646,788
Total	**718,845**	646,788
Bank borrowings comprising:		
Amounts due within one year shown under current liabilities or containing a repayment on demand clause	**617,084**	546,953
Amounts that are not repayable within one year from the end of the reporting period but containing a repayment on demand clause (shown under current liabilities)	**55,360**	99,835
	672,444	646,788
Amounts due within one year shown under current liabilities		
Comprising:		
Bank overdrafts	**41,500**	–
Secured bank borrowings	**672,444**	646,788
	713,944	646,788
Amounts shown under non-current liabilities		
Comprising:		
Secured bank borrowings	**4,901**	–
Total	**718,845**	646,788

Note: The amounts due are based on the scheduled repayment dates set out in the bank borrowings.

Bank overdrafts carry interest at market rates which range from 4.50% to 5.50% and are repayable on demand (2018: nil).

The bank borrowings arranged at floating rates are with average effective interest rates ranging from 3.60% to 6.21% (2018: 2.50% to 5.39%) per annum.

27. SECURED BANK BORROWINGS/BANK OVERDRAFTS (CONTINUED)

As at 31 December 2019 and 2018, the Group's banking facilities were secured by:

(a) pledge of the Group's bank deposits of approximately HK$93,097,000 (2018: HK$84,785,000);

(b) the Group's land and buildings and carparks in Hong Kong of approximately HK$88,180,000 (2018: HK$80,890,000);

(c) negative pledge on the assets of certain subsidiaries in the PRC and Bangladesh; and

(d) financial assets at FVTPL of the Group.

28. DERIVATIVE LIABILITIES

	2019 ***HK$'000***	2018 *HK$'000*
Derivative liabilities		
Interest rate swap contract	**345**	499

Interest rate swap contract:

Notional amount at each maturity date	Maturity	Interest rate
As at 31 December 2019 and 2018		
HK$15,000,000	From July 2016 to July 2021	Fixed rate at 3.28% to be swapped with floating HIBOR

29. LEASE LIABILITIES

	2019 ***HK$'000***
Lease liabilities payable:	
Within one year	**3,024**
Within a period of more than one year but not more than two years	**658**
Within a period of more than two years but not more than five years	**568**
Within a period of more than five years	**7,368**
	11,618
Less: Amount due for settlement within 12 months shown under current liabilities	**(3,024)**
Amount due for settlement after 12 months shown under non-current liabilities	**8,594**

30. OBLIGATIONS UNDER FINANCE LEASE

	2018 *HK$'000*
Analysed for reporting purposes as:	
Current liabilities	52
Non-current liabilities	156
	208

It is the Group's policy to lease certain of its motor vehicle under finance lease. The average lease term is 5 years for the year ended 31 December 2018). Interest rates underlying all obligations under finance lease are fixed at respective contract dates ranging at 6.03% per annum for the year ended 31 December 2018. The lease has no terms of renewal or purchase options and escalation clauses.

	Minimum lease payment 2018 *HK$'000*	Present value of minimum lease payment 2018 *HK$'000*
Amount payable under finance leases:		
Within one year	52	39
Within a period of more than one year but not more than two years	52	42
Within a period of more than two years but not more than five years	139	127
	243	208
Less: Future finance charges	(35)	N/A
Present value of lease obligations	208	208
Less: Amount due for settlement within 12 months under current liabilities		(39)
Amount for settlement after 12 months shown under non-current liabilities		169

31. SHARE CAPITAL OF THE COMPANY

	Notes	Number of shares	Share capital US$'000
Ordinary shares of US$0.01 each			
Authorised:			
At 1 January 2018, 31 December 2018 and 31 December 2019		1,000,000,000	10,000
Issued and fully paid:			
At 1 January 2018, 31 December 2018		615,000,000	6,150
Issue of new ordinary shares by way of placing	*(a)*	33,180,000	332
Issue of new ordinary shares under specific mandate	*(b)*	12,902,000	129
At 31 December 2019		661,082,000	6,611

Shown in the consolidated financial statements as:

	Amount HK$'000
At 31 December 2018	47,847
At 31 December 2019	51,432

Notes:

(a) On 26 September 2019, the Company completed the placement of existing ordinary shares to independent investors of 33,180,000 ordinary shares of US$0.01 each of the Company at a price of HK$1.55 per ordinary share representing a discount of approximately 14.36% to the closing market price of the Company's ordinary shares on 20 September 2019.

Pursuant to a top-up subscription agreement dated 20 September 2019, the immediate holding company subscribed for 33,180,000 new ordinary shares of US$0.01 in the Company at a price of HK$1.55 per ordinary share on 3 October 2019. The proceeds were used to reduce borrowings for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 17 May 2019 and rank pari passu with other shares in issue in all respects.

(b) In order to reduce borrowings for the Company, the Company issued 12,902,000 new ordinary shares of US$0.01 each, for consideration of HK$1.55 per share to the immediate holding company under a specific mandate. The new ordinary shares were issued on 15 November 2019 to the immediate holding company after approval by the independent shareholders at the extraordinary general meeting of the Company held on 13 November 2019. The new shares rank pari passu with the existing shares in all respects.

32. DEFERRED TAXATION

	Revaluation of land and buildings *HK$'000*	Accelerated accounting depreciation *HK$'000*	Total *HK$'000*
At 1 January 2018	4,922	(1,179)	3,743
Charge to equity	1,232	–	1,232
Credit to profit or loss	–	(272)	(272)
At 31 December 2018	6,154	(1,451)	4,703
Charge to equity	879	–	879
Credit to profit or loss	–	(212)	(212)
At 31 December 2019	7,033	(1,663)	5,370

The Group has unused tax losses of approximately HK$199,667,000 (2018: HK$117,888,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

33. SHARE BASED PAYMENT TRANSACTIONS

SHARE OPTION SCHEMES

The Group adopted a share option scheme on 19 June 2017 ("**Share Option Scheme**"). The purpose of Share Option Scheme is to provide any directors and full-time employees of any member of the Group who have contributed or will contribute to the Group ("**Participants**") with the opportunity to acquire proprietary interests in the Company and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants.

Pursuant to the Share Option Scheme, the directors of the Company may invite Participants to take up options at a price determined by the board of directors provided that it shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made by the Company to the grantee (which date must be a business day, "**Offer Date**"); (b) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Offer Date; and (c) the nominal value of a share of the Company.

33. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE OPTION SCHEMES (CONTINUED)

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 scheme of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 12 July 2017 unless the Company obtains a fresh approval from the shareholders to refresh the limit.

The maximum entitlement for any one Participant is that the total number of the shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue unless otherwise approved by the shareholders at a general meeting of the Company.

The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which would be determined and notified by the board of directors to the grantee at the time of making an offer.

No share options have been granted by the Group up to the date of issuance of these consolidated financial statements.

SHARE AWARD SCHEME

The Group adopted a share award scheme on 11 December 2017 ("**Share Award Scheme**"). The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

The result in the number of the shares awarded shall not exceeding 5% of the number of the issued shares of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the number of the issued shares of the Company from time to time.

During the year ended 31 December 2018, 5,334,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$8,000,000. On 16 January 2018, certain directors and employees of the Group have been awarded for 5,333,334 ordinary shares under the Share Award Scheme. There are no new shares awarded during the year ended 31 December 2019.

33. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE AWARD SCHEME (CONTINUED)

The award shares will be vested to the Selected Participants in four tranches with 1,333,000 ordinary shares of the Company to be vested in July 2018, 1,768,000 ordinary shares of the Company to be vested in July 2019, 1,982,334 ordinary shares of the Company to be vested in July 2020 and 250,000 ordinary shares of the Company to be vested in July 2021.

The fair value of the shares awards determined based on share price at grant date amounting to HK$3,527,000 is recognised as staff cost in the profit or loss for the year ended 31 December 2019 (31 December 2018: HK$2,919,000). As at 31 December 2019, 2,266,000 (31 December 2018: 4,001,000) ordinary shares of the Company were held by the trustee of the Share Award Scheme, of which 2,194,667 (31 December 2018: 3,996,334) shares remained unvested and 71,333 (31 December 2018: 4,666) shares remained ungranted or lapsed. The ungranted or lapsed shares remain as trust fund and will be used for grant of share awards in future.

The closing price of the shares of the Company immediately before the grant of awarded shares was HK$1.50 per share.

The following table discloses movements of the shares award during the years are as follows:

Outstanding Awarded Shares as at grant date	Number of Awarded Shares vested during the year	Number of Awarded Shares lapsed during the year	Outstanding Awarded Shares as at 31 December 2018
5,333,334	(1,333,000)	(4,000)	3,996,334

Outstanding Awarded Shares as at 1 January 2019	**Number of Awarded Shares vested during the year**	**Number of Awarded Shares lapsed during the year**	**Outstanding Awarded Shares as at 31 December 2019**
3,996,334	(1,735,000)	(66,667)	**2,194,667**

34. RETIREMENT BENEFITS SCHEME

DEFINED CONTRIBUTION SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (the "**Mandatory Contributions**"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement at the age of 65, death or total incapacity.

The employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The Group are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

Provident fund in Bangladesh is not mandatory but the Group is required to create such a fund once half of the employees demand so. The employees of the Group's factories in Bangladesh are covered by a company self-managed provident fund operated by respective subsidiaries of the Group in Bangladesh. Relevant subsidiaries are required to contribute a minimum specified percentage of payroll costs to the provident fund to fund the benefits. The minimum contribution for voluntary workers are 8.33% of their basic salaries. Those subsidiaries are obliged to set up the trustee board for managing the contribution to the provident fund with participation from both of the company management team and the employees.

35. OPERATING LEASES

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 *HK$'000*
Within one year	2,440
In the second to fifth year inclusive	3,837
Over five years	13,353
	19,630

36. CAPITAL COMMITMENT

	2019 HK$'000	2018 HK$'000
Contracted but not provided in the consolidated financial statements in respect of property, plant and equipment	**117**	1,399

37. RELATED PARTY TRANSACTIONS

Other than the transaction and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

(A)

	Note	2019 HK$'000	2018 HK$'000
Computer products and service expenses	*(i)*	**1,080**	1,080

Note:

(i) The Group entered into transactions with Hopcom Software Company Limited of which Mr. Chang Chih Lung and Mr. Chang Yoe Chong, Felix are also the directors and shareholders of these companies.

(B) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of key management personnel (including executive directors and other members) during the year were as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee		
Salaries and other benefits	**4,600**	3,921
Equity settled share-based expenses	**1,269**	1,269
Retirement benefits scheme contributions	**90**	87
	5,959	5,277

The remuneration of directors and other members is determined having regard to the performance of individuals and market trends.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts which includes secured bank borrowings disclosed in note 27, lease liabilities disclosed in note 29, net of cash and cash equivalents and equity attributable to owners of the Group, comprising issued share capital, other reserves and retained profits.

The directors of the Group review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

39. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2019 ***HK$'000***	2018 *HK$'000*
Financial assets		
Amortised cost	**359,616**	351,729
FVTPL	**25,761**	24,766
	385,377	376,495
Financial liabilities		
Amortised cost	**808,113**	724,215
Derivative liabilities	**345**	499
	808,458	724,714

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, pledged bank deposits, bank balances and cash, trade payables, other payables, secured bank borrowings, bank overdrafts, derivative liabilities, lease liabilities, amount due to a non-controlling shareholder of a subsidiary and amount due to a related company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has sales and purchases that are transacted in foreign currencies, which expose the Group to foreign currency risk. In order to reduce the risks associated with foreign currency fluctuations, the Group has entered into certain foreign currency forward contracts to manage their exposures to changes of foreign exchange rate. However, as these foreign currency forward contacts do not qualify for hedge accounting, they are deemed as liabilities held for trading.

At the end of the reporting period, the carrying amounts of monetary assets (including intra-group balances) and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	Liabilities		Assets	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Australian dollars	**–**	–	**656**	690
Canadian dollars	**–**	–	**1,183**	1,150
Euro dollars	**–**	–	**1,415**	1,582
Great British Pound	**–**	–	**844**	798
RMB	**1,304**	–	**314**	688
HK$	**395,556**	610,663	**165,335**	175,437

The directors of the Company consider that the Group is exposed to minimal currency risk as HK$ is pegged to US$ which is the functional currency of certain group entities, and the exposure to other foreign currencies is not significant. Sensitivity on foreign currency risk is therefore not presented.

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, lease liabilities and pledged bank deposits which carried fixed interest rate.

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings (see note 27 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. From time to time, if interest rate fluctuates significantly, interest rate swaps may be used to convert some of the floating interest rates borrowings to fixed rates, to manage interest rate exposure. The Group has entered into interest rate swap contract with details set out in note 28 for both years.

The Group's exposures to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Dollar Prime Rate, Hong Kong Interbank Offered Rate and London Interbank Offered Rate, arising from the Group's HK$ and US$ borrowings.

Cash flow interest rate risk in relation to variable-rate bank balances is considered insignificant as minimal taking into account the minimal fluctuation on market interest rate. Accordingly, no interest rate sensitivity analysis is prepared.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would decrease/increase by approximately HK$2,981,000 (2018: decrease/increase by approximately HK$2,700,000) respectively.

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk and impairment assessment

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Pledged bank deposits and bank balances

The credit risk on pledged bank deposits and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Trade receivables

The Group has concentration of credit risk as 33% (2018: 23%) and 80% (2018: 55%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the hair products business segment.

In addition, the Group's concentration of credit risk by geographical location as is mainly in the USA, which account for 84% (2018: 96%) of the total trade receivables as at 31 December 2019. In order to minimise the credit risk, the directors of the Company has delegated the management to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

In addition, the Group performs impairment assessment under ECL model on trade receivables based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Impairment assessment on trade and other receivables subject to ECL model

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. Certain of the Group's trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. Taking into account the financial condition of the customers and historical settlement pattern with no history of default in the past, and the forward-looking information, the management of the Group considers the trade receivables are grouped as lower risk under internal credit rating assessment and the probability of default of the counterparties was low. The Group applied ECL rate of 9.50% (2018: 12.90%) on trade receivables overdue more than 90 days amounting to HK$1,499,000 (2018: HK$842,000) and 0.01% (2018: 0.01%) on trade receivables which are overdue less than 90 days amounting to HK$34,471,000 (2018: HK$13,811,000) and not pass due amounting to HK$147,637,000 (2018: HK$147,820,000). Thus, the loss allowance provision of the trade receivables as at 31 December 2018 and 31 December 2019 was insignificant. No credit impairment is recognised for both years. There were no credit-impaired trade receivables as at 31 December 2018 and 31 December 2019.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

As at 31 December 2019, the Group has HK$1,499,000 (2018: HK$842,000) of trade receivables past due over 90 days. The Group does not consider such balances are defaulted due to long and on-going business relationship and good repayment record from these customers.

Other receivables

For other receivables and deposits, in order to minimise the credit risk, the directors of the Company continuously monitor the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. For the purposes of internal credit management, the Group use past due information to assess whether credit risk has increased significantly since initial recognition. In the opinion of the directors of the Company, the internal credit rating of other receivable is at low risk. The Group assessed that the 12-month ECL with the 0.01% average loss rate, on other receivables and deposits with a total gross carrying amount of HK$46,803,000 as at 31 December 2019 (2018: HK$ 35,598,000) are insignificant and thus no impairment loss allowance was recognised.

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to settle its financial liabilities as they fall due. In managing liquidity risk, the Group monitors and maintains sufficient funds to meet all its potential liabilities as they fall due. It is applicable to normal market conditions as well as negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation.

Liquidity forecasts are produced on a monthly basis, to ensure that utilisation of current facilities is optimised; on a quarterly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long-term strategic funding requirements. The board of directors also continuously assesses the balance of capital and debt funding of the Group.

The board of directors continuously manages liquidity risk on a regular basis and will increase the frequencies of such assessment should need arise. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring the utilisation of bank borrowings and ensuring compliance with loan covenants.

The Group's holdings of cash and short-term deposits, together with net cash flows from operations and proceeds from issue of new shares, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative financial instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average interest rate %	On demand HK$'000	Less than 3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2019							
Financial liabilities							
Non-interest bearing							
Trade payables	N/A	–	36,568	–	–	36,568	36,568
Derivative liabilities – interest rate swap	N/A	–	–	345	–	345	345
Amount due to a non-controlling shareholder of a subsidiary	N/A	2,700	–	–	–	2,700	2,700
Amount due to a related company	N/A	50,000	–	–	–	50,000	50,000
Interest bearing							
Secured bank borrowings	4.35	672,444	–	–	7,608	680,052	677,345
Bank overdrafts	4.74	41,500	–	–	–	41,500	41,500
Lease liabilities	6.57	–	3,698	3,429	13,700	20,827	11,618
		766,644	40,266	3,774	21,308	831,992	820,076

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	Weighted average interest rate %	On demand *HK$'000*	Less than 3 months *HK$'000*	3 – 6 months *HK$'000*	6 months to 1 year *HK$'000*	1 – 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2018								
Financial liabilities								
Non-interest bearing								
Trade payables	N/A	–	38,582	–	–	–	38,582	38,582
Derivative liabilities – interest rate swap	N/A	–	–	–	–	499	499	499
Amount due to a non-controlling shareholder of a subsidiary	N/A	8,845	–	–	–	–	8,845	8,845
Amount due to a related company	N/A	30,000	–	–	–	–	30,000	30,000
Interest bearing								
Secured bank borrowings	3.69	646,788	–	–	–	–	646,788	646,788
Obligations under finance lease	6.03	–	13	13	26	191	243	208
		685,633	38,595	13	26	690	724,957	724,922

39. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Bank borrowings with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2019, the aggregate carrying amounts of these bank borrowings amounted to approximately HK$672,444,000 (2018: HK$646,788,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity analysis – Bank borrowings with a repayment on demand clause based on scheduled repayments

	Interest rate	Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2019	**4.35**	**620,965**	**26,908**	**23,269**	**7,446**	**678,588**	**672,444**
31 December 2018	3.69	583,055	68,058	38,784	10,007	699,904	646,788

(C) FAIR VALUE INSTRUMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial investments that are measured at fair value on a recurring basis

Some of the Group's financial investments are measured at fair value as at year ended. The following table gives information about how the fair values of these financial investments are determined (in particular, the valuation techniques and inputs used).

39. FINANCIAL INSTRUMENTS (CONTINUED)

(C) FAIR VALUE INSTRUMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial investments that are measured at fair value on a recurring basis (Continued)

Financial assets and liabilities	Fair value		Fair value hierarchy	Valuation techniques and key inputs
	2019	2018		
	HK$'000	*HK$'000*		
Derivative liability – interest rate swap	Liabilities – 345	Liabilities – 499	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Financial assets at FVTPL	Assets – 25,761	Assets – 24,766	Level 2	Value provided by insurance companies.

There were no transfers between Level 1 and Level 2 at the end of the reporting period.

The directors of the Company consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. Such fair value have been determined in accordance with generally accepted pricing models based on the discounted cash flow analysis.

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amount due to a related company	Amount due to a non-controlling shareholder of a subsidiary	Secured bank borrowings	Bank overdrafts	Dividend payable	Lease liabilities/ obligations under finance lease	Interest payable (included in other payable)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	–	7,726	505,882	–	–	–	–	513,608
Finance costs	–	–	–	–	–	–	15,524	15,524
Interest capitalised in the cost of qualified assets	–	–	–	–	–	–	9,669	9,669
Dividends recognised	–	–	–	–	75,830	–	–	75,830
Financial cash flows	30,000	1,119	140,906	–	(75,830)	208	(25,193)	71,210
At 31 December 2018	30,000	8,845	646,788	–	–	208	–	685,841
Adjustment upon application of HKFRS 16 *(note 2)*	–	–	–	–	–	8,969	–	8,969
At 1 January 2019	**30,000**	**8,845**	**646,788**	**–**	**–**	**9,177**	**–**	**694,810**
Finance costs	**–**	**–**	**–**	**–**	**–**	**829**	**19,848**	**20,677**
Interest capitalised in the cost of qualified assets	**–**	**–**	**–**	**–**	**–**	**–**	**15,853**	**15,853**
New lease entered	**–**	**–**	**–**	**–**	**–**	**5,455**	**–**	**5,455**
Capital contribution from non-controlling shareholder of a subsidiary *(note 41)*	**–**	**(7,835)**	**–**	**–**	**–**	**–**	**–**	**(7,835)**
Dividends recognised	**–**	**–**	**–**	**–**	**21,857**	**–**	**–**	**21,857**
Financial cash flows	**20,000**	**1,690**	**30,557**	**41,500**	**(21,857)**	**(3,843)**	**(35,701)**	**32,346**
At 31 December 2019	**50,000**	**2,700**	**677,345**	**41,500**	**–**	**11,618**	**–**	**783,163**

41. MAJOR NON-CASH TRANSACTION

During the year, capital contribution by a non-controlling shareholder of a subsidiary was settled by waiver of debt through amount due to non-controlling shareholder of a subsidiary amounting to HK$7,835,000 (2018: nil).

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2019 and 2018 are as follows:

Name	Issued and fully paid-up capital/ contributed capital	Attributable equity interest directly held by the Company 2019	2018	Place of registration/ incorporation	Principal activities
昆明訓修髮製品有限公司 Kunming Evergreen Hair Products Co., Ltd.*	HK$45,526,000	100%	100%	The PRC	Manufacturing and trading of hair products
訓修實業(禹州)有限公司 Evergreen Products Factory (YZ) Co., Ltd.*	US$2,000,000	100%	100%	The PRC	Manufacturing and trading of hair products
訓修實業(深圳)有限公司 Evergreen Products Factory (SZ) Co., Ltd.*	US$2,400,000	100%	100%	The PRC	Technological development of hair products and property investment
東莞訓修髮製品有限公司 Evergreen Products Factory (DG) Co., Ltd.*	US$1,500,000	100%	100%	The PRC	Property investment
深圳訓修髮製品有限公司 Shenzhen Evergreen Hair Products Co., Ltd.#	HK$3,000,000	100%	100%	The PRC	Manufacturing and trading of hair products
廣州市東珍纖維有限公司 Guangzhou Dong Jin Industrial Co., Ltd.*	US$350,000	100%	100%	The PRC	Manufacturing and trading of hair products
Evergreen Products Factory (BD) Limited	Taka1,000,050,000	100%	100%	Bangladesh	Manufacturing and trading of hair products
EPF Global Enterprises Limited	HK$10,000	100%	100%	Hong Kong	Trading of hair products
EPF International Limited	HK$10,000	100%	100%	Hong Kong	Trading of hair products
Gold Timing Manufacture (BD) Limited	Taka100,000	100%	100%	Bangladesh	Manufacturing and trading of hair products
TFA Holdings Limited	GBP100	51%	51%	The UK	Sales of hair product
Wisdom Ocean Limited	HK$10,000	100%	100%	Hong Kong	Trading of hair products through internet

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name	Issued and fully paid-up capital/ contributed capital	Attributable equity interest directly held by the Company 2019	2018	Place of registration/ incorporation	Principal activities
Dong Jin Industrial Company Limited	HK$1,955,000	100%	100%	Hong Kong	Trading of fibres and investment holding
Gold Rocket Limited	Taka100,000	100%	100%	Bangladesh	Provision of logistic services to group companies
Trillion Gold Limited	Taka100,000	100%	100%	Bangladesh	Construction of NPT-05 Factory
Dong Jin Industrial (BD) Company Limited	Taka100,000	100%	100%	Bangladesh	Manufacturing, export and import of hair products
I-Corporation	YEN3,000,000	100%	100%	Japan	Trading of hair products
Golden Chance Limited	YEN3,000,000	100%	100%	Japan	Trading of hair products through internet
E5 Co., Ltd.	YEN9,000,000	51%	51%	Japan	Trading of hair products
Purple Stone Inc.	US$1,000	100%	100%	The USA	Property holding
Purple Star Inc.	US$1,000	100%	100%	The USA	Trading of hair products through internet
Red Stone Inc.	US$50,000	100%	100%	The USA	Property holding
Evergreen Factory	HK$3,000,000	100%	100%	Hong Kong	Manufacturing and trading of hair products and investment holdings

* Limited liability company (solely invested by Taiwan, Hong Kong or Macao legal person) established in the PRC.

\# Limited liability company (solely invested by Hong Kong legal person) established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2019	2018
	HK$'000	*HK$'000*
Non-current asset		
Investment in a subsidiary	**545,072**	463,112
Current assets		
Amount due from a subsidiary	**40,000**	–
Prepayments and other receivables	**4,113**	12,280
Bank balances and cash	**461**	328
	44,574	12,608
Current liabilities		
Other payables	**2,960**	2,850
Secured bank borrowings	**63,872**	21,000
Amount due to a subsidiary	**–**	8,000
	66,832	31,850
Net current liabilities	**(22,258)**	(19,242)
	522,814	443,870
Capital and reserves		
Share capital	**51,432**	47,847
Reserves	**471,382**	396,023
Equity attributable to owners of the Company	**522,814**	443,870

44. RESERVE OF THE COMPANY

MOVEMENT IN THE COMPANY'S RESERVE

	Share premium *HK$'000*	Share award reserve *HK$'000*	Share held for share award scheme *HK$'000*	Retained profit *HK$'000*	Total *HK$'000*
At 1 January 2018	366,950	–	–	61,611	428,561
Profit for the year and total comprehensive income	–	–	–	48,373	48,373
Employee share award scheme:					
– Value of employee services	–	2,919	–	–	2,919
– Shares with held for share award scheme	–	–	(8,000)	–	(8,000)
– Vesting of shares of share award scheme	–	(2,000)	2,000	–	–
Dividends recognised	–	–	–	(75,830)	(75,830)
At 31 December 2018	366,950	919	(6,000)	34,154	396,023
Profit for the year and total comprehensive income	–	–	–	26,597	26,597
Employee share award scheme:					
– Value of employee services	–	3,527	–	–	3,527
– Vesting of shares of share award scheme	–	(2,603)	2,603	–	–
New ordinary shares issue by way of placing	48,848	–	–	–	48,848
New ordinary shares issue under specific mandate	18,994	–	–	–	18,994
Transaction costs attributable to issue of new ordinary shares	(750)	–	–	–	(750)
Dividends recognised	–	–	–	(21,857)	(21,857)
At 31 December 2019	434,042	1,843	(3,397)	38,894	471,382

45. EVENT AFTER THE REPORTING PERIOD

The outbreak of the novel coronavirus pneumonia ("**COVID-19**") and the subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 had certain impact on the operations of the Group, as some of the Group's operations are located in the PRC. The Group had to stop its manufacturing activities in the PRC since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic and operation was resumed in mid-February 2020.

In the opinion of the directors, there is no material impact on the operations of the Group up to the date of these consolidated financial statement are authorised for issue, as the Group's principal manufacturing plants are now located in Bangladesh and the Group's major customers and suppliers are all located outside the PRC. However, given the unpredictability associated with the COVID-19 global outbreak and any further contingency measures that may be put in place by the relevant governments and corporate entities as at the date of these consolidated financial statements are authorised for issue, the directors of the Company expect that the COVID-19 outbreak may affect the consolidated results of the Group for the remaining quarters of 2020 but the financial effects on the Group's consolidated financial statements cannot be reasonably estimated.

Five-Year Financial Summary

Results	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	2018 *HK$'000*	**2019** ***HK$'000***
Revenue	554,479	595,682	647,343	732,170	**777,405**
Gross profit	194,841	211,253	230,220	255,765	**257,008**
Profit before taxation	71,375	37,017	110,415	110,972	**86,794**
Profit for the year attributable to:	68,739	32,757	109,464	110,611	**86,200**
Owners of the Company	68,706	32,970	110,151	110,975	**90,328**
Non-controlling interests	33	(213)	(687)	(364)	**(4,128)**
Basic earnings per share (HK cents)	0.20	0.10	0.24	0.18	**0.15**
Dividends	268,000	50,000	50,000	41,205	**19,704**

Assets and liabilities	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	2018 *HK$'000*	**2019** ***HK$'000***
Non-current assets	276,836	353,809	432,995	618,450	**796,052**
Current assets	516,964	630,687	800,597	855,839	**925,928**
Current liabilities	462,768	633,389	558,047	758,562	**837,219**
Net current assets (liabilities)	54,196	(2,702)	242,550	97,277	**88,709**
Non-current liabilities	2,688	207,990	3,743	4,859	**18,865**
Net assets	328,344	143,117	671,802	710,868	**865,896**