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

2018 Annual Report

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
(appointed on 15 November 2018)
Ms. Jia Ziying
Mr. Li Yanbo

NON-EXECUTIVE DIRECTORS

Mr. Chang Chih Lung *(Founder and Honorary Chairman)*
(resigned on 15 November 2018)
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

COMPLIANCE ADVISER

China Galaxy International Securities (Hong Kong)
Co., Limited

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 22, 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 2018 (the "**Year**").

OVERVIEW

Since the successful listing (the "**Listing**") of the shares of the Company (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 July 2017 (the "**Listing Date**"), the Group has continued to expand production capacity to meet the growing market demands for hair products. With the completion of the bleaching and dyeing facilities (the "**Bleaching and Dyeing Complex**") in Bangladesh during the Year, the Group is going to expand the full range of human hair products which eventually will increase its sales volume year by year.

The trade war between China and the United States has had no impact on the Group as the Group has successfully moved the majority of its production capacity to Bangladesh. Going forward, the Group will put more focus on e-commerce sales directly to end users. Besides, the Group is open to any opportunities of vertical integration to increase its profitability.

BUSINESS REVIEW

During the Year, construction of several production complexes and facilities in Bangladesh, including the Bleaching and Dyeing Complex and the printing facility (the "**UEPZ Printing Facility**"), was completed. At the same time, the Group has further scaled down production capacity in China due to better saving of manufacturing costs in Bangladesh by benefiting from greater economies of scale.

Bleaching and dying is one of the most technical procedures during the production of human hair goods. The comprehensive, well-equipped, eco-friendly Bleaching and Dyeing Complex completed in Bangladesh during the Year enables the Group to manufacture all types of human hair products, and not only to the current high-end human hair extension markets, but also provides the Group with a robust platform for introducing a greater variety of human hair goods to its customers. Continuing technical training of workers for the production of human hair goods is also in place to enhance production capacity and efficiency of the Group.

The self-built UEPZ Printing Facility in Bangladesh has shortened production lead time as compared to outsourcing as shipping period can be eliminated. Moreover, it saves costs for storage of safety inventory of printing materials. The UEPZ Printing Facility enhances the Group's flexibility to take urgent orders and swapping production schedules to meet market demands.

Currently, construction of phase II of the Bleaching and Dyeing Complex is in progress and is expected to complete in 2019. As for the last planned new facility where cartoning will be done, construction has commenced and will open by the end of 2019 or the beginning of 2020.

FINANCIAL REVIEW

The expansion of production capacity of the production facilities in Bangladesh (the "**Bangladesh Factory**") coupled with wider recognition and greater volume of orders from customers have contributed to business growth. During the Year, the Group's turnover amounted to HK$732.2 million (2017: HK$647.3 million), representing a 13.1% increase from the year ended 31 December 2017. The Group continued to enjoy low labour costs by conducting production at the Bangladesh Factory during the Year, which also contributed positively to an overall increase in gross profit of 11.1% to HK$255.8 million, while gross profit margin slightly decreased by 0.7 percentage point to 34.9%. The decline was due to the netting off effect against the initial running costs for the newly built factories. Benefiting from economies of scale at the Bangladesh Factory, the Group's adjusted operating net profit for the Year would be HK$107.0 million, representing an increase of HK$14.3 million, or 15.4%, as compared with HK$92.7 million for the year ended 31 December 2017.

OUTLOOK

The dividend payout ratio of the Group has decreased from 45.7% for the year ended 31 December 2017 to 37.3% for the Year, despite the Group's adjusted net profit having increased by 15.4% as compared to the previous year. This is due to the Group's decision to deploy sufficient funding and liquidity resources for future expenditure plans. With the addition of new production facilities in Bangladesh, the Group believes that it will be able to meet additional product demand from existing and new customers, shorten the production lead time and improve its production efficiency. These can be achieved by integrating the Group's raw material processing and hair goods production functions in Bangladesh. Looking ahead, the Group expects that the construction of new facilities in Bangladesh will continue in full speed until at least the end of 2019 and will slow down afterwards. Planned addition of gross floor area to the production facilities in Bangladesh is around 100,000 square metres. Training of different levels of workers is in full swing now. By integrating the Bleaching and Dyeing Complex and the Group's human hair production technique with the existing facilities in Bangladesh, utilisation of the Group's production facilities in Bangladesh will be further enhanced.

With full support from the Bangladesh Factory, the Group plans to set up more sales offices in other Asian countries for selling high-end human hair extensions under self-owned brands with an aim to keep boosting sales and profit margins. The Group also plans to set up a few one-stop hair care centres specialised in providing tailor-made toupees to treat hair loss in Asian countries such as China and Japan. With such kind of downstream integration of marketing and sales directly by the Group's comprehensive range of human hair products, the gross profit margin and net profit of the Group are expected to elevate to next level.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK2.50 cents per Share for the Year, totalling approximately HK$15.4 million based on a total of 615,000,000 Shares in issue as at the date of this annual report, plus the interim dividend of HK4.20 cents per Share already declared and paid, making a total dividend of HK6.70 cents per Share (2017: final dividend of HK8.13 cents per Share and interim dividend of nil). The dividend payout ratio for the Year was approximately 37.3% (2017: 45.7%).

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 2019

Management Discussion and Analysis

BUSINESS REVIEW

Three planned construction projects in Bangladesh were completed during the Year. In January 2018, construction of the Group's GT Hand Tie Facility, which is dedicated to producing hand-tied extensions, was completed and the new facility has commenced production. In addition, the Group completed the construction of the UEPZ Printing Facility early this year. Before the end of the Year, construction of phase I of the Bleaching and Dyeing Complex was also completed and operation has begun. The Group is going to expand full range of human hair products which eventually will increase our sales volume year by year.

The trade war between China and the United States has had no impact to our Group as the Group has successfully moved the majority of our production capacity to Bangladesh. Going forward, the Group will put more focus on e-commerce sales directly to end users. Besides, the Group is open for any opportunities of vertical integration to increase its profitability.

FINANCIAL REVIEW

During the Year, the Group's financial results were similar compared with the year ended 31 December 2017 with improved profitability growth due to the increasing production capacity at the Bangladesh Factory.

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$732.2 million, representing an increase of HK$84.9 million or 13.1% as compared with HK$647.3 million for the year ended 31 December 2017. The increase was primarily 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, rising market demand for the Group's wigs products was satisfied by the rapid expansion of production capacity at the Bangladesh Factory. The Bangladesh Factory, which has consistently enhanced its production capabilities and continued to develop steadily during the Year, remained as the Group's main revenue source and facilitated its profitability growth. During the Year, the revenue generated from hair goods made at the Bangladesh Factory accounted for 92.3% of the Group's total revenue as compared with 87.4% for the year ended 31 December 2017.

The United States remained as the Group's principal market during the Year with revenue contribution accounting for 81.2% of the Group's total revenue during the Year as compared with 80.5% for the year ended 31 December 2017. In terms of product segments, wigs, hair accessories and others remained as the Group's key product segment, accounting for 71.9% of its total revenue during the Year as compared with 69.0% for the year ended 31 December 2017.

Wigs, hair accessories and others. Revenue from wigs, hair accessories and others increased by HK$80.0 million, or 17.9%, from HK$446.6 million for the year ended 31 December 2017 to HK$526.6 million for the Year, primarily due to more sales of high margin products such as lace wigs and less sales of low margin products such as braids during the year.

High-end human hair extensions. Revenue from high-end human hair extensions increased by HK$5.6 million, or 3.5%, from HK$160.0 million for the year ended 31 December 2017 to HK$165.6 million for the Year, primarily due to higher sales volume driven by increased production at the Bangladesh Factory.

Halloween products. Revenue from Halloween products slightly decreased by HK$0.7 million, or 1.7%, from HK$40.7 million for the year ended 31 December 2017 to HK$40.0 million for the Year. Sales of Halloween products remained steady.

COST OF GOODS SOLD

The Group's cost of goods sold increased by HK$59.3 million, or 14.2%, from HK$417.1 million for the year ended 31 December 2017 to HK$476.4 million for the Year, which is in line with an increase in revenue during the Year.

Wigs, hair accessories and others. Cost of goods sold for wigs, hair accessories and others increased by HK$55.1 million, or 17.9%, from HK$307.8 million for the year ended 31 December 2017 to HK$362.9 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$6.4 million, or 8.2%, from HK$78.4 million for the year ended 31 December 2017 to HK$84.8 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$2.2 million, or 7.1%, from HK$30.9 million for the year ended 31 December 2017 to HK$28.7 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, which also contributed positively to the overall improvement in gross profit. During the Year, the Group's gross profit amounted to HK$255.8 million, representing an increase of HK$25.6 million, or 11.1%, as compared with HK$230.2 million for the year ended 31 December 2017, primarily due to an increase in sales of braids and drawstring items in the segment of wigs, hair accessories and others, which netted off against the initial running costs for the newly built factories. During the Year, the Group's gross profit margin amounted to 34.9%, representing a slight decrease of 0.7 percentage points from 35.6% for the year ended 31 December 2017.

Wigs, hair accessories and others. Gross profit for wigs, hair accessories and others increased by HK$24.9 million, or 17.9%, from HK$138.8 million for the year ended 31 December 2017 to HK$163.7 million for the Year. Gross profit margin for this segment remained at 31.1% for both 2017 and the Year, despite a change in product mix towards production of more braids and drawstring items during the Year.

High-end human hair extensions. Gross profit for high-end human hair extensions slightly decreased by HK$0.8 million, or 1.0%, from HK$81.6 million for the year ended 31 December 2017 to HK$80.8 million for the Year. Gross profit margin for this segment slightly declined from 51.0% for the year ended 31 December 2017 to 48.8% for the Year, primarily due to an increase in sales of high-end human hair extensions under non-self-owned brands during the Year, which recorded a lower gross profit margin than similar products sold under the Group's own brands.

Halloween products. Gross profit for Halloween products increased by HK$1.5 million, or 15.3%, from HK$9.8 million for the year ended 31 December 2017 to HK$11.3 million for the Year. Gross profit margin for Halloween products increased from 24.0% for the year ended 31 December 2017 to 28.3% for the Year, primarily due to an increase in the average selling price of Halloween products.

OTHER INCOME

Other income decreased by HK$1.2 million, or 29.3%, from HK$4.1 million for the year ended 31 December 2017 to HK$2.9 million for the Year, primarily due to a decease in interest income earned from life insurance contracts.

OTHER GAINS AND LOSSES

Other gains and losses increased by HK$12.3 million, or 300.0%, from a loss of HK$4.1 million for the year ended 31 December 2017 to a gain of HK$8.2 million for the Year, primarily due to a gain on disposal of property, plant and equipment of HK$6.8 million (2017: HK$0.1 million) and a net foreign exchange gain of HK$0.1 million (2017: a loss of HK$3.8 million).

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses rose by HK$0.3 million, or 1.9%, from HK$15.7 million for the year ended 31 December 2017 to HK$16.0 million for the Year, primarily due to an increase in advertising and commission expenses to boost sales during the Year.

ADMINISTRATIVE EXPENSES

Administrative expenses rose by HK$17.3 million, or 16.4%, from HK$105.7 million for the year ended 31 December 2017 to HK$123.0 million for the Year, primarily due to an increase in staff salary and corresponding pension payments during the Year and regular professional fees after the Listing.

OTHER EXPENSES

Other expenses decreased by HK$16.7 million, or 92.8%, from HK$18.0 million for the year ended 31 December 2017 to HK$1.3 million for the Year, primarily due to a decrease in the amount of donations made by the Group from HK$2.7 million for the year ended 31 December 2017 to HK$1.3 million for the Year and the fact that no listing expenses had been incurred during the Year (2017: HK$15.3 million).

FINANCE COSTS

Finance costs increased by HK$3.0 million, or 24.0%, from HK$12.5 million for the year ended 31 December 2017 to HK$15.5 million for the Year. During the Year, the Group capitalised interest on bank borrowings of HK$9.7 million as the cost of qualifying assets (2017: HK$8.0 million). Without such capitalisation, the increase in finance costs, as compared to the year ended 31 December 2017, was HK$4.7 million or 22.9% for the Year, primarily due to an increase in bank borrowings.

TAXATION

Income tax expense of the Group decreased by HK$0.6 million, or 60.0%, from HK$1.0 million for the year ended 31 December 2017 to HK$0.4 million for the Year, primarily due to a decrease in income tax expense in Hong Kong. Income tax expense was netted off against the reversal of deferred taxation in the amount of HK$0.3 million for the Year (2017: HK$0.4 million).

NET PROFIT

The Group's net profit for the Year amounted to HK$110.6 million, representing an increase of HK$1.1 million, or 1.0%, as compared with HK$109.5 million for the year ended 31 December 2017, primarily attributable to: (i) two one-off and non-operating items recognised during the Year, which include the value of employee services of HK$3.0 million (2017: Nil) in respect of the share awards granted under the share award scheme adopted by the Company on 11 December 2017 (the "**Share Award Scheme**") and a gain on disposal of two pieces of leasehold land and buildings of totalling HK$6.6 million; (ii) absence of two one-off and non-recurring Listing-related items during the Year as compared with the year ended 31 December 2017, during which a gain of HK$32.1 million from a change in fair value of redeemable convertible preferred shares and netting off against the listing expenses of HK$15.3 million were recognised; and (iii) an increase in net profit arising from the manufacturing and sale of hair products.

NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES MEASUREMENT

Without taking into account (i) the value of employee services of HK$3.0 million and the gain on disposal of leasehold land and buildings of HK$6.6 million for the Year; and (ii) the listing expenses of HK$15.3 million and the change in fair value of redeemable convertible preferred shares of HK$32.1 million for the year ended 31 December 2017, the Group's adjusted net profit for the Year was HK$107.0 million, representing an increase of HK$14.3 million, or 15.4%, as compared with HK$92.7 million for the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's bank balances, pledged bank deposits and cash decreased by 19.8% from HK$191.7 million as at 31 December 2017 to HK$153.7 million as at 31 December 2018. The significant decrease in cash and bank balances as at 31 December 2018 was primarily due to use up of the proceeds from the global offering of the Shares and the netting-off effect from an increase in borrowings for the preparation for the upcoming construction payments and operating expenses such as salary and utilities payment with regards to the Bangladesh Factory in the coming months.

BORROWINGS AND GEARING RATIO

As at 31 December 2018, the Group's banking facilities amounted to HK$689.2 million, of which HK$42.4 million remained unutilised. As at 31 December 2018, the gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, obligations under finance leases and any preferred Shares) divided by total equity, was 91.0% as compared to 75.3% as at 31 December 2017. Moreover, the net gearing ratio of the Group, which is equivalent to total interest-bearing debt (including secured bank borrowings, obligations under finance leases and any preferred Shares) net of total cash and bank balances divided by total equity, was 69.4% as compared to 46.8% as at 31 December 2017. The increase in the gearing ratio and net gearing ratio for the Year primarily reflected an increase in secured bank borrowings.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

During the Year, the Group spent approximately HK$202.7 million (including interest on bank borrowings of HK$9.7 million capitalised as the cost of qualifying assets) on additions to fixed assets as compared to HK$82.3 million (including interest on bank borrowings of HK$8.0 million capitalised as the cost of qualifying assets) for the year ended 31 December 2017 mainly to further upgrade and expand its manufacturing capabilities in Bangladesh. As at 31 December 2018, the Group had capital commitments of HK$1.4 million in respect of property, plant and equipment (31 December 2017: Nil).

CURRENCY RISKS

A significant portion of the Group's revenue is derived from sales to overseas customers denominated in foreign currencies. For the Year, 93.0% (2017: 93.3%) 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 2018, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2018, the Group's banking facilities were secured by:

(a) a pledge of the Group's bank deposits of approximately HK$84.8 million;

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

(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 2018, the Group employed a total of (i) 18,015 employees in Bangladesh, as compared to 16,629 as at 31 December 2017, (ii) 612 employees in China, as compared to 743 as at 31 December 2017, (iii) 69 employees in Hong Kong, as compared to 70 as at 31 December 2017, and (iv) 25 employees in Japan, the United States, Thailand and Ukraine, as compared to 9 in Japan and the United States as at 31 December 2017.

Total employee expenditures during the Year amounted to HK$275.7 million as compared to HK$240.6 million for the year ended 31 December 2017. 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 dividend payout ratio of the Group has decreased from 45.7% for the year ended 31 December 2017 to 37.3% for the Year, despite the Group's adjusted net profit having increased by 15.4% as compared to the previous year. This is due to the Group's decision to deploy sufficient funding and liquidity resources for future expenditure plans. With the addition of new production facilities in Bangladesh, the Group believes that it will be able to meet additional product demand from existing and new customers, shorten the production lead time and improve its production efficiency. These can be achieved by integrating the Group's raw material processing and hair goods production functions in Bangladesh. Looking ahead, the Group expects that the construction of new facilities in Bangladesh will continue in full speed until at least the end of 2019 and will slow down afterwards. Planned addition of gross floor area to the production facilities in Bangladesh is around 100,000 square metres. Training of different levels of workers is in full swing now. By integrating the Bleaching and Dyeing Complex and the Group's human hair production technique with the existing facilities in Bangladesh, utilisation of the Group's production facilities in Bangladesh will be further enhanced.

With full support from the Bangladesh Factory, the Group plans to set up more sales offices in other Asian countries for selling high-end human hair extensions under self-owned brands with an aim to keep boosting sales and profit margins. The Group also plans to set up a few one-stop hair care centres specialised in providing tailor-made toupees to treat hair loss in Asian countries such as China and Japan. With such kind of downstream integration of marketing and sales directly by the Group's comprehensive range of human hair products, the gross profit margin and net profit of the Group are expected to elevate to next level.

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 53, 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 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 25 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.

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 41, 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 logistic, procurement and human resources and administration department. He is primarily responsible for the Group's logistic, 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 51, 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 20 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.

Biographical Details of Directors and Senior Management

Mr. Hui Wing Ki, aged 39, 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 42, 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.

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 48, 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.

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.

* *For identification purposes only*

NON-EXECUTIVE DIRECTORS

Mr. Chan Lau Yui Kevin, aged 52, 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.

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

As at 31 December 2018, 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 52, 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.

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

As at 31 December 2018, 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 52, 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 2018, 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 44, 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. 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 2018, 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 57, 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 2018, 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 51, 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 2018, 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 57, 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: 66), 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 date of this annual report, 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 40, 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 13 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 of 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. Chang Yoe Chong Felix is the Chairman of the Board. Mr. Chang Yoe Chong Felix is the son of Mr. Chang Chih Lung, the founder of the Group, has been a Director since the incorporation of the Company on 19 May 2016 and was re-designated as a non-executive Director and appointed as the Honorary Chairman of the Group on 9 September 2016. Mr. Chang Chih Lung resigned as a non-executive Director and the Honorary Chairman of the Company with effect from 15 November 2018.

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 or 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 of 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 (appointed on 15 November 2018)	–	✓	✓
Ms. JIA Ziying	✓	✓	✓
Mr. LI Yanbo	✓	✓	✓
Non-executive Directors			
Mr. CHANG Chih Lung *(Founder and Honorary Chairman)* (resigned on 15 November 2018)	–	–	✓
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	–	–	✓

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 three meetings during the Year, at which it reviewed the audited annual results of the Group for the year ended 31 December 2017, the unaudited interim results of the Group for the six months ended 30 June 2018, 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 2019, 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$500,000 to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	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 2018 annual general meeting.

C. ATTENDANCE RECORD AT MEETINGS

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

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee meeting	Annual General Meeting
Number of meetings	4	3	2	2	1
Executive Directors					
Mr. Chang Yoe Chong Felix *(Chairman and Chief Executive Officer)*	3	N/A	2	2	1
Mr. Kwok Yau Lung Anthony *(Chief Operating Officer)*	4	N/A	N/A	N/A	1
Mr. Chan Kwok Keung	2	N/A	N/A	N/A	0
Mr. Hui Wing Ki *(appointed on 15 November 2018)*	N/A	N/A	N/A	N/A	N/A
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. Chang Chih Lung *(Founder and Honorary Chairman) (resigned on 15 November 2018)*	0	N/A	N/A	N/A	0
Mr. Chan Lau Yui Kevin	3	N/A	N/A	N/A	0
Mr. Chan Hoi Sing Harold	4	N/A	N/A	N/A	1
Independent Non-executive Directors					
Mr. Lau Ip Keung Kenneth	3	1	1	1	0
Mr. Sin Hendrick	2	1	0	0	1
Dr. Yung Bruce Pak Keung	4	3	2	2	1
Mr. Szeto Yuk Ting	4	3	2	2	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$0.5 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 11 May 2018, 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 22, 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 22, 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 2018 are set out in note 40 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 2018 are set out in the Consolidated Financial Statements and their accompanying notes on pages 98 to 179.

The Board has recommended the payment of a final dividend of HK2.50 cents per Share for the Year, totalling approximately HK$15.4 million based on a total of 615,000,000 Shares in issue as at the date of this annual report, plus the interim dividend of HK4.20 cents per Share already declared and paid, making a total dividend is HK6.70 cents per shares (2017: final dividend of HK8.13 cents per Share and interim dividend of nil).

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 43.1% of its total cost of goods sold for the Year (2017: 44.0%). 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 93.0% (2017: 93.3%) of the Group's revenue from outside the PRC and derived 81.2% (2017: 80.5%) 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 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 plans to commence the construction of a bleaching and dyeing complex in Bangladesh, the first phase of which is scheduled to be completed by the end of 2018. The Group also has plans to construct and complete a total of four new production facilities in Bangladesh by the end of 2019.

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 36.9% (2017: 32.9%) of the Group's cost of goods sold during the Year. The Group's largest supplier supplied raw materials comprising 27.5% (2017: 23.1%) 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 2018, the Group recorded net cash from operating activities of HK$83.8 million (2017: net cash used in operating activities of HK$1.6 million) and net cash from financing activities of HK$63.0 million (2017: HK$159.6 million). The net cash used in operating activities for the year ended 2017 mainly arose from the payment of one-off, non-recurring and non-capitalised part of Listing-related expenses of HK$20.6 million which were not recorded for the Year. During the Year, the Group had used net cash of HK$166.9 million (2017: HK$129.3 million) in its investing activities. The Group had total bank borrowings of HK$646.8 million (2017: HK$505.9 million), out of which HK$547.0 million (2017: HK$363.9 million) will be due within one year. Also, the Group had cash and cash equivalents of HK$68.9 million (2017: HK$91.2 million) and unutilised bank credit facilities of HK$42.4 million (2017: HK$78.1 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 2018, the Group had a total of 18,015 employees (2017: 16,629 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$81,000 (2017: HK$0.4 million) 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 (appointed on 15 November 2018)
Ms. JIA Ziying
Mr. LI Yanbo

NON-EXECUTIVE DIRECTORS

Mr. CHANG Chih Lung *(Founder and Honorary Chairman)* (resigned on 15 November 2018)
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)

Mr. Chang Chih Lung has resigned as a non-executive Director and the Honorary Chairman of the Company with effect from 15 November 2018 in order to devote more time to his other endeavours. The Board has requested and Mr. Chang has agreed to serve as a senior advisor of the Company, so that he can utilize his experience to provide corporate advice on business directions and strategies of the Group. Mr. Chang will not receive any remuneration for serving as a senior advisor of the Company.

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. Kwok Yau Lung Anthony, Ms. Jia Ziying, Mr. Chan Lau Yui Kevin, Mr. Yung Bruce Pak Keung and Mr. Szeto Yuk Ting will retire from office and, being eligible, will offer himself/herself for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

In accordance with article 112 of the articles of association of the Company, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. By virtue of article 112 of the articles of association of the Company, Mr. Hui Wing Ki and Ir. Cheung Siu Wa will retire from office and, being eligible, will offer themselves for re-election at the 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 2018, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- Mr. Chang Chih Lung has ceased to be a non-executive Director and the Honorary Chairman of the Company since 15 November 2018.
- Mr. Hui Wing Ki has been appointed as an executive Director with effect from 15 November 2018.
- Ir. Cheung Siu Wa has been appointed as an independent non-executive Director with effect from 18 February 2019.
- The remuneration of Mr. Chan Kwok Keung, an executive Director, has been increased from HK$1,081,000 per year to HK$1,117,000 per year with effect from 26 March 2019.

- The remuneration of Mr. Hui Wing Ki, an executive Director, has been increased from HK$681,000 per year to HK$720,000 per year with effect from 26 March 2019.

- The remuneration of Ms. Jia Ziying, an executive Director, has been increased from RMB72,000 per year to RMB175,000 per year with effect from 26 March 2019.

- The remuneration of Mr. Li Yanbo, an executive Director, has been increased from RMB63,000 per year to RMB167,000 per year with effect from 26 March 2019.

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 36 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 (the "**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 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 10% 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 nine 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.

During the Year, a total of 5,333,334 Shares, representing approximately 0.87% of the total issued Shares as at 31 December 2018, were granted by the Company to certain Directors, senior management and employees of the Company and 1,333,000 awarded Shares were vested in the name of the selected employees under the Share Award Scheme.

As at 31 December 2018, the trustee of the Share Award Scheme held a total of 4,001,000 Shares, of which 3,996,334 Shares remain unvested. The remaining 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	Granted during the Year	Vested during the Year	Lapsed during the Year	Outstanding as at 31 December 2018	Vesting schedule
16 January 2018	Mr. Chan Kwok Keung	1,000,000	250,000	–	750,000	To vest on 13 July of each year from 2018 to 2021
	Mr. Kwok Yau Lung Anthony	333,333	111,000	–	222,333	
	Mr. Hui Wing Ki[1]	333,333	111,000	–	222,333	
	Ms. Jia Ziying	400,000	133,000	–	267,000	
	Mr. Li Yanbo	100,000	–	–	100,000	
	Other grantees	3,166,668	728,000	4,000	2,434,668	
	Total	5,333,334	1,333,000	4,000	3,996,334	

Note:

(1) Mr. Hui Wing Ki was appointed as an executive Director on 15 November 2018.

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

As at 31 December 2018, 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	336,903,803[1]	54.78%
	(ii) Beneficial owner	9,790,600[2]	1.59%
Mr. Chan Kwok Keung	Beneficial owner	1,000,000[3]	0.16%
Mr. Kwok Yau Lung Anthony	Beneficial owner	333,333[4]	0.05%
Mr. Hui Wing Ki	Beneficial owner	333,333[5]	0.05%
Ms. Jia Ziying	(i) Beneficial owner	400,000[6]	0.07%
	(ii) Interest of spouse	100,000[8]	0.02%
Mr. Li Yanbo	(i) Beneficial owner	100,000[7]	0.02%
	(ii) Interest of spouse	400,000[8]	0.07%

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 615,000,000 issued Shares as at 31 December 2018.

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 in 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 2018) 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 2018, 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 2018, 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	336,903,803	54.78%
Golden Evergreen[1]	Interest in controlled corporation	336,903,803	54.78%
FC Investment[1]	Interest in controlled corporation	336,903,803	54.78%
FC Management[1]	Interest in controlled corporation	336,903,803	54.78%
CLC Investment[1]	Interest in controlled corporation	336,903,803	54.78%
CLC Management[1]	Interest in controlled corporation	336,903,803	54.78%
HSBC International Trustee Limited[1]	Trustee of a trust	336,903,803	54.78%
Mr. Chang Chih Lung[1]	Beneficiary of a trust/ Founder of a discretionary trust	336,903,803	54.78%
Ms. Wong Hor Yan[2]	Interest of spouse	346,694,403	56.37%
SEAVI Advent Investments Ltd. (“**SEAVI Advent**”)[3]	Beneficial owner	108,912,197	17.71%
Codan Trust Company (Cayman) Limited[3]	Interest in controlled corporation	108,912,197	17.71%

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 615,000,000 issued Shares as at 31 December 2018.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2018, 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 36 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.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 36 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 36 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 29 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had reserves available for distribution to the Shareholders of approximately HK$34.2 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 2018, 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	86.5	85.9%
(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	20.1	91.0%
(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	168.0	82.1%

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, except that the trustee of the Share Award Scheme purchased a total of 5,334,000 Shares at a total consideration of HK$8.0 million pursuant to the terms of the rules and the trust deed of the Share Award Scheme.

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 2018 are set out in note 26 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 34.9% for the Year (2017: approximately 35.6%).

(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 15.1% for the Year (2017: approximately 16.9%). The decrease in net profit margin was primarily attributable to: (i) two one-off and non-operating items recognised during the Year, which are the value of employee services of HK$3.0 million (31 December 2017: Nil) in respect of the share awards granted, under the share award scheme adopted by the Company on 11 December 2017 (the "Share Award Scheme") during the Year and a gain on disposal of two leasehold land and building of totalling HK$6.6 million; (ii) absence of two one-off and non-recurring listing-related items during the Year as compared with corresponding period in 2017, during which a gain of HK$32.1 million from a change in fair value of redeemable convertible preferred shares and net off against the listing expenses of HK$15.3 million were recognised; and (iii) an increase in net profit arising from the manufacturing and sale of hair products.

- Non-generally accepted accounting principles measurement: Without taking into account (i) the value of employee services of HK$3.0 million and the gain on disposal of leasehold land and building of HK$6.6 million for the Year; and (ii) the listing expenses of HK$15.3 million and the change in fair value of redeemable convertible preferred shares of HK$32.1 million for the year ended 31 December 2017, the Group's adjusted net profit for the Year was HK$107.0 million, representing an increase of HK$14.3 million, or 15.4%, as compared with HK$92.7 million for the year ended 31 December 2017. The term "adjusted net profit margin" is not defined in the Hong Kong Financial Reporting Standards (HKFRS). The use of "adjusted net profit margin" has material limitations as an analytical tool, as the term does not include all items that impact the Group's net profit margin for the Year.

(iii) Gearing ratio and net gearing ratio

- Definition and calculation: Gearing ratio is derived by dividing total interest-bearing debt (including secured bank borrowings, 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, 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 91.0% (2017: 75.3%) and net gearing ratio was approximately 69.4% (2017: 46.8%) for the Year. The increase in gearing ratio and net gearing ratio for the Year primarily reflected an increase in secured bank borrowings.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling approximately HK$1.3 million (2017: HK$2.7 million).

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the Group's five largest customers and the largest customer accounted for 58.0% and 19.0%, 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 36.9% and 27.5%, 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.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

Ir. Cheung Siu Wa has been appointed as an independent non-executive Director with effect from 18 February 2019.

Please refer to section headed "Biographical Details of Directors and Senior Management" in this annual report for the biographical details of Ir. Cheung.

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 2018, 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 2019

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

As one of the prominent brands in the hair products manufacturing industry, the Group stringently fulfills its environmental and social responsibilities.

The Group has developed its sustainability strategy with the aim to create sustainable values to its stakeholders, and to continue to lower its adverse impact on the environment. In order to carry out the Group's sustainability strategy from top to bottom, the Board has the ultimate responsibility for ensuring the effectiveness of the Group's environmental, social and governance ("**ESG**") policies. The Board has established dedicated teams to manage ESG issues within each business division of the Group, and Mr. Kwok Yau Lung Anthony, an executive Director and the Chief Operating Officer, would report to the Board on the effectiveness of the ESG risk management and internal control systems. The Group is also committed to constantly reviewing and adjusting its sustainability policies to satisfy the ever-changing needs of its stakeholders. Details of its management approach in both the environmental and social aspects can be found throughout different sections of this report. The Group believes that sustainability is essential to its overall long-term success.

The Group is pleased to present this report to demonstrate its approach and performance in terms of sustainable development for the year ended 31 December 2018. This report is prepared in compliance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules.

SCOPE OF THIS REPORT

The Group is principally engaged in the manufacturing, distribution and retail business of hair products. This Report covers the environmental and social information regarding the 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 business and related services (collectively, the "**Trading Business**") of trading hair products in the United States, the PRC, Hong Kong, Japan, Bangladesh, Thailand and Ukraine; and

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

REPORTING PERIOD

The information published in this report covers the period from 1 January 2018 to 31 December 2018 ("**FY2018**"), which is the same as the financial year covered in the Group's annual report for the year ended 31 December 2018.

BASIS OF PREPARATION OF THIS REPORT

This report is prepared in accordance with Appendix 27, "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 THE GROUP

Founded in 1962, the Group is one of the 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 three production centres in Bangladesh. As at 31 December 2018, the Group employed (i) 18,015 employees in Bangladesh, (ii) 612 employees in the PRC, (iii) 69 employees in Hong Kong, and (iv) 25 employees in other countries (i.e. Japan, the USA, Thailand and Ukraine), as compared to 16,629 in Bangladesh, 743 in the PRC, 70 in Hong Kong, and 9 in other countries as at 31 December 2017.

3. ENGAGEMENT OF STAKEHOLDERS

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 FY2018, 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 set out in Table 3.2 and Table 3.3 below, with the average score to each question noted in the brackets 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 (3.9)	A2 General Disclosure (4.1)	A3 General Disclosure (3.9)
KPI A1.1 (3.9)	KPI A2.1 (4.0)	KPI A3.1 (3.9)
KPI A1.2 (3.7)	KPI A2.2 (3.9)	
KPI A1.3 (3.9)	KPI A2.3 (3.5)	
KPI A1.4 (3.8)	KPI A2.4 (3.9)	
KPI A1.5 (3.9)	KPI A2.5 (4.0)	
KPI A1.6 (3.8)		

Section 2: Employment and Labour Practices

Employment	Health and Safety	Development and Training	Labour Standards
B1 General Disclosure (4.6)	B2 General Disclosure (4.5)	B3 General Disclosure (4.2)	B4 General Disclosure (4.7)
KPI B1.1 (4.1)	KPI B2.1 (4.4)	KPI B3.1 (4.1)	KPI B4.1 (4.7)
KPI B1.2 (3.8)	KPI B2.2 (4.3)	KPI B3.2 (3.9)	KPI B4.2 (4.6)
	KPI B2.3 (4.1)		

Section 3: Operating Practices

Supply Chain Management	Product Responsibility	Anti-corruption
B5 General Disclosure (4.2)	B6 General Disclosure (4.2)	B7 General Disclosure (4.5)
KPI B5.1 (3.9)	KPI B6.1 (3.7)	KPI B7.1 (4.0)
KPI B5.2 (4.2)	KPI B6.2 (4.4)	KPI B7.2 (4.2)
	KPI B6.3 (4.1)	
	KPI B6.4 (4.3)	
	KPI B6.5 (4.3)	

Section 4: Community

Community Investment		
B8 General Disclosure (4.0)	KPI B8.1 (4.2)	KPI B8.2 (4.1)

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 (3.3)	A2 General Disclosure (3.6)	A3 General Disclosure (3.4)
KPI A1.1 (3.0)	KPI A2.1 (3.4)	KPI A3.1 (3.1)
KPI A1.2 (3.0)	KPI A2.2 (3.3)	
KPI A1.3 (3.3)	KPI A2.3 (3.4)	
KPI A1.4 (3.3)	KPI A2.4 (3.0)	
KPI A1.5 (3.4)	KPI A2.5 (3.3)	
KPI A1.6 (3.7)		

Section 2: Employment and Labour Practices

Employment	Health and Safety	Development and Training	Labour Standards
B1 General Disclosure (3.9)	B2 General Disclosure (3.7)	B3 General Disclosure (3.7)	B4 General Disclosure (3.9)
KPI B1.1 (2.6)	KPI B2.1 (3.9)	KPI B3.1 (3.1)	KPI B4.1 (3.7)
KPI B1.2 (2.9)	KPI B2.2 (3.4)	KPI B3.2 (3.0)	KPI B4.2 (4.0)
	KPI B2.3 (4.0)		

Section 3: Operating Practices

Supply Chain Management	Product Responsibility	Anti-corruption
B5 General Disclosure (3.6)	B6 General Disclosure (3.7)	B7 General Disclosure (3.7)
KPI B5.1 (3.4)	KPI B6.1 (3.9)	KPI B7.1 (4.0)
KPI B5.2 (3.3)	KPI B6.2 (4.1)	KPI B7.2 (3.6)
	KPI B6.3 (3.7)	
	KPI B6.4 (3.4)	
	KPI B6.5 (3.4)	

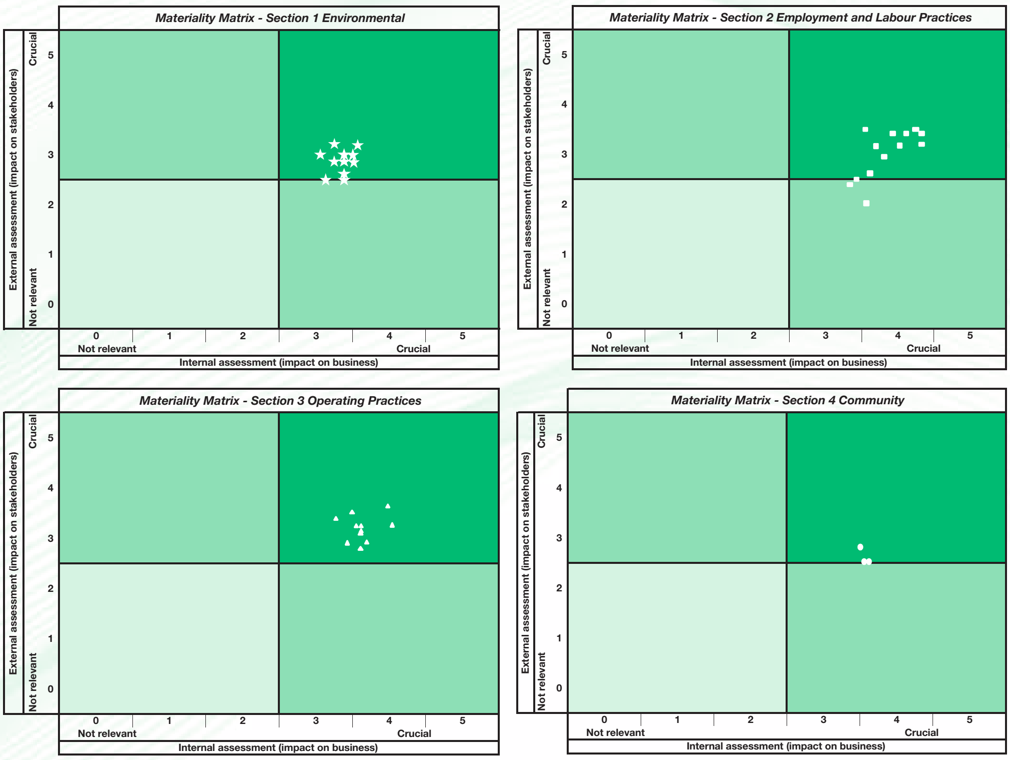
Section 4: Community

Community Investment		
B8 General Disclosure (3.3)	KPI B8.1 (3.0)	KPI B8.2 (3.0)

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 set out below separately as 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 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 efficiency in the usage of energy, water resources and materials, while also complying with the 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 the relevant local environmental laws and regulations in the countries where it operates. In FY2018, the Group was not in violation of any 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 FY2018 are presented in Table 4.1 below:

Table 4.1 The Group's Emission Amounts and Intensity in FY2018

Indicators	Unit	Amount1*	Amount2**	Intensity*** (per employee)
GHG Emissions				
Direct emissions	Tonne CO_2e	251	1,008	–
Energy indirect emissions	Tonne CO_2e	56	12,769	–
Total GHG emissions	Tonne CO_2e	307	13,777	0.75
Discharge to Water				
Total industrial wastewater discharge	Tonnes	/	17,233	0.92
Total domestic wastewater discharge	Tonnes	263	12,362	0.67
Hazardous Waste				
Total hazardous waste	Tonnes	/	1	~0
Non-hazardous Waste				
Total non-hazardous waste	Tonnes	<1	35.5	0.002

* *Amount1 refers to the emission from the head office in Hong Kong and the Trading Business*

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

*** *Intensity = (Amount1+ Amount2)/total employees of the Group in FY2018*

Trading Business

For the Trading Business of the Group, emissions mainly include greenhouse gases ("**GHG**"), domestic wastewater and non-hazardous wastes generated in the offices. No air emissions, hazardous wastewater or hazardous wastes were generated by the Trading Business in FY2018.

The source of GHG emissions from the Trading Business is mainly the use of electricity. To reduce GHG emissions from electricity consumption, the Group has taken specific measures which are described in the following section headed "4.2 Use of Resources – Electricity" 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 offices, which are described in the following section headed "4.2 Use of Resources – Water" in this report.

Non-hazardous wastes were generated from the daily operating 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 the printer's configuration and using both sides of the paper;
- Establishing a network group to reduce paper usage;
- Using the yellow paper at the back of the workshop packaging sticker 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 assessments are passed before new equipment is purchased or new initiatives are adopted;
- Environmental management policy is developed and put in practice;
- Wastewater management system is established and put in practice; and
- Trainings are 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 GHG emissions and control the impacts on the environment, the Group has developed and carried out mitigation measures as follows:

- 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 employees to take 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 in compliance with the national standard;
- Reusing shampoo and controlling the usage of fresh water to reduce the amount of wastewater generated; and
- Recycling 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 pursuant to signed agreements; 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 advocates 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 FY2018, 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 FY2018 are presented in Table 4.2 below:

Table 4.2 The Group's Total Use of Resources in FY2018

Indicators	Unit	Amount1*	Amount2**	Intensity*** (per employee)
Energy				
Electricity	kWh'000	83	18,478	0.99
Natural Gas	M^3	209	144,625	7.74
Gasoline	Litres	9,007	38,225	2.52
Diesel	Litres	81,768	342,715	22.67
Coal	Tonnes	/	178	0.01
Water				
Water	M^3	1,302	737,164	39.45
Packaging material				
By Paper	Tonnes	108	3,772	0.21
Raw Materials				
By Plastic	Tonnes	16	429	0.024

* *Amount1 refers to the emission from the head office in Hong Kong and the Trading Business*

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

*** *Intensity = (Amount1+ Amount2)/total employees of the Group in FY2018*

Energy

1. Electricity

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

- Replacing traditional incandescent lighting with electricity-saving lighting in 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 switches;
- Cleaning office equipment regularly to maintain high efficiency;
- Setting temperature 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 the 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 conditions of vehicles; and 4) hiring skilled drivers.

Water Usage Management

Sources of water used by the Group mainly include: 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 FY2018.

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 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 and 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 operations on the environment and natural resources is mainly caused by emissions, wastewater discharge, wastes generation, and use of resources 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 on the environment and natural resources, the Group has implemented relevant policies and measures in relation to reduction of energy consumption, wastewater treatment before discharge, reduction of emissions and wastes 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 boxes;
- Re-using cracked-cut cardboard as production tools; and
- Using construction waste 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 the employees' health and safety as well as well-being. The Group strives to create 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 resources ("**HR**") policies. The HR department regularly reviews and updates the relevant HR policies based on the latest laws and regulations. All subsidiaries of the Group shall follow the Group's HR policies and comply with the 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 FY2018, the Group was 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 below.

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 introduces 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 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, transferral, jobs rotation, trainings 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 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 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 principle 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 employees. Attributes (including race, gender, religion, age, nationality, disability, social status, marital status, etc.) not related to 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 the responsibility to assess, deal with and take relevant disciplinary actions on 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. 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 its employees.

The Group also implements comprehensive protection scheme and participates in social insurance (i.e. pension, medical 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 FY2018, 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 were no work-related injuries or fatalities in FY2018.

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 employees, for example:

- Providing a variety of health and safety related trainings (see Section 5.1.3 for the 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 to continuously enhance safety of work environment;
- Providing fire-fighting equipment in offices and factories for emergency purposes, what is inspected and maintained regularly;
- Carrying out fire-fighting and evacuation drills regularly (quarterly or yearly);
- Providing in place fire safety notice board is provided in place;
- Providing medical checks for employees, including general medical checks for general employees and occupational health checks for specific employees/workers who would contact 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 maintain 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 jobs 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 trainings provided by the Group include the following categories:

- Introduction training: orientation training is provided to new staff covering policies and procedures of the Group, safety and fire-fighting, position-related knowledge and skills, etc.;

- Professional and technical training: trainings 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 national standards wherever appropriate; and

- Health and safety: such training is provided as part of the employee's introduction training and regular refresher trainings. Courses are arranged according to the Group's needs. Local authorities may also arrange fire fighting safety training which the Group is required to attend.

In addition to the internal trainings 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 organisations 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 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*, 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 FY2018, 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 Supply 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 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 suppliers' 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*.

In addition, the Group also complies with the laws and regulations in the US 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 FY2018, 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 that 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 various measures, such as 1) only purchasing raw materials from suppliers that have passed the Group's quality and reliability assessment; 2) requesting suppliers to provide raw material test reports prepared by internationally recognised testing centres in compliance with international standards.

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

In FY2018, no claim or complaint was made against the Group for any product health and safety issues.

2. Advertising and Labelling

The Group has established internal guidelines to ensure that accurate product labelling 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 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 properly 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 is 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 provides 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 FY2018, 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 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 fulfil 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:

- Cooperating actively with the local government 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 98 to 179, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We 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$128,339,000 as at 31 December 2018, the date of revaluation. A surplus on revaluation of HK$13,928,000 was recognised based on a valuation performed by an independent qualified valuer using direct comparison 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 19 and 4 to the consolidated financial statements, the Group's inventories as at 31 December 2018 amounted to HK$430,889,000 and no provision for obsolete inventories has been made for the year ended 31 December 2018.	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 aging 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 2019

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	**732,170**	647,343
Cost of goods sold		**(476,405)**	(417,123)
Gross profit		**255,765**	230,220
Other income	7	**2,887**	4,055
Other gains and losses	8	**8,226**	(4,084)
Distribution and selling expenses		**(16,015)**	(15,720)
Administrative expenses		**(123,034)**	(105,695)
Other expenses	9	**(1,333)**	(17,956)
Change in fair value of redeemable convertible preferred shares	31	**–**	32,100
Finance costs	10	**(15,524)**	(12,505)
Profit before tax	11	**110,972**	110,415
Income tax expense	13	**(361)**	(951)
Profit for the year		**110,611**	109,464
Other comprehensive income (expense) for the year:			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of land and buildings		**13,928**	16,141
Deferred tax arising from revaluation of land and buildings		**(1,232)**	(1,396)
		12,696	14,745
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(3,330)**	(2,541)
Other comprehensive income for the year, net of income tax		**9,366**	12,204
Total comprehensive income for the year		**119,977**	121,668

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		**110,975**	110,151
Non-controlling interests		**(364)**	(687)
		110,611	109,464
Total comprehensive income (expense) attributable to:			
Owners of the Company		**120,386**	122,418
Non-controlling interests		**(409)**	(750)
		119,977	121,668
Earnings per share (HK$)	*15*		
– basic		**0.18**	0.24
– diluted		**0.18**	0.15

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**553,951**	365,411
Prepaid lease payments	17	**18,412**	19,939
Deposits for acquisition of property, plant and equipment	20	**21,321**	22,415
Financial assets at fair value through profit or loss	18	**24,766**	–
Deposits and prepayments to life insurance policies	18	**–**	25,230
		618,450	432,995
Current assets			
Inventories	19	**430,889**	385,040
Trade and other receivables	20	**269,986**	222,637
Prepaid lease payments	17	**344**	362
Tax recoverable		**962**	865
Pledged bank deposits	21	**84,785**	100,539
Bank balances and cash	22	**68,873**	91,154
		855,839	800,597
Current liabilities			
Trade and other payables	23	**64,773**	41,152
Contract liabilities	24	**4,638**	–
Amount due to a related company	25	**30,000**	–
Amount due to a non-controlling shareholder of a subsidiary	25	**8,845**	7,726
Tax payable		**2,967**	2,554
Secured bank borrowings	26	**646,788**	505,882
Derivative liabilities	27	**499**	733
Obligations under finance lease	28	**52**	–
		758,562	558,047
Net current assets		**97,277**	242,550
		715,727	675,545

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	*29*	**47,847**	47,847
Reserves		**664,080**	624,605
Equity attributable to owners of the Company		**711,927**	672,452
Non-controlling interests		**(1,059)**	(650)
Total equity		**710,868**	671,802
Non-current liabilities			
Deferred tax liabilities	*30*	**4,703**	3,743
Obligations under finance lease	*28*	**156**	–
		4,859	3,743
		715,727	675,545

The consolidated financial statements on page 98 to 179 were approved and authorised for issue by the board of directors on 26 March 2019 and are signed on its behalf of:

Chang Yoe Chong Felix	Kwok Yau Lung Anthony
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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 2017	7,780	–	(53,992)	64,312	–	–	(76)	(14,788)	139,781	143,017	100	143,117
Profit (loss) for the year	–	–	–	–	–	–	–	–	110,151	110,151	(687)	109,464
Surplus on revaluation of land and buildings	–	–	–	16,141	–	–	–	–	–	16,141	–	16,141
Deferred tax arising from revaluation of land and buildings	–	–	–	(1,396)	–	–	–	–	–	(1,396)	–	(1,396)
Exchange differences arising from translation of foreign operations	–	–	–	–	–	–	–	(2,478)	–	(2,478)	(63)	(2,541)
Total comprehensive income (expense) for the year	–	–	–	14,745	–	–	–	(2,478)	110,151	122,418	(750)	121,668
Ordinary shares issued *(note 29(c))*	11,962	241,726	–	–	–	–	–	–	–	253,688	–	253,688
Transaction costs attributable to issue of new ordinary shares	–	(19,827)	–	–	–	–	–	–	–	(19,827)	–	(19,827)
Conversion of redeemable convertible preferred shares	2,871	170,285	–	–	–	–	–	–	–	173,156	–	173,156
The effect of capitalisation issue *(note 29(c))*	25,234	(25,234)	–	–	–	–	–	–	–	–	–	–
At 31 December 2017	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 schemes	–	–	–	–	–	(8,000)	–	–	–	(8,000)	–	(8,000)
– Vesting of shares of share award scheme	–	–	–	–	(2,000)	2,000	–	–	–	–	–	–
Dividend paid *(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

Notes:

a. Capital reserve represents (i) the contribution from an intermediate holding company to Evergreen Products Factory Limited ("Evergreen Factory"); 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.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**110,972**	110,415
Adjustments for:		
Depreciation of property, plant and equipment	**27,343**	27,670
Amortisation of prepaid lease payments	**342**	343
Net (gain) loss from changes in fair value of derivative liabilities	**(234)**	315
Bank interest income	**(279)**	(153)
Gain on disposal of property, plant and equipment	**(6,796)**	(73)
Finance costs	**15,524**	12,505
Change in fair value of redeemable convertible preferred shares	**–**	(32,100)
Share-based payment expense	**2,919**	–
Interest income from life insurance contracts	**–**	(2,058)
Change in fair value of the financial assets at fair value through profit or loss	**(1,081)**	–
Operating cash flows before movements in working capital	**148,710**	116,864
Increase in inventories	**(45,849)**	(67,962)
Increase in trade and other receivables	**(48,381)**	(33,264)
Increase (decrease) in trade and other payables	**24,963**	(11,851)
Increase in contract liabilities	**4,638**	–
Decrease in derivative liabilities	**–**	(2,567)
Cash generated from operations	**84,081**	1,220
Income tax paid	**(317)**	(2,793)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**83,764**	(1,573)
INVESTING ACTIVITIES		
Repayment from directors	**–**	24,079
Proceeds from disposal of property, plant and equipment	**7,204**	159
Additions to receivables arising from insurance contracts	**–**	–
Receipts from withdrawal of insurance contracts	**1,545**	6,814
Repayment from fellow subsidiaries	**–**	824
Interest received	**279**	153
Purchase of property, plant and equipment	**(170,370)**	(74,303)
Withdrawal of pledged bank deposits	**15,754**	–
Placement of pledged bank deposits	**–**	(64,627)
Deposits paid for acquisition of property, plant and equipment	**(21,321)**	(22,415)
NET CASH USED IN INVESTING ACTIVITIES	**(166,909)**	(129,316)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	–	253,688
New mortgage and short terms loans raised	**135,000**	80,000
Advance from a non-controlling shareholder of a subsidiary	**1,119**	7,726
Advance from (repayment to) a related company	**30,000**	(46,644)
Repayment of mortgage and short term loans	**(100,762)**	(45,310)
Increase (decrease) in trust receipt loan and discounted bills	**106,668**	(32,464)
Payment of issued costs/deferred listing related expenses	–	(15,167)
Interest paid	**(25,194)**	(19,713)
Repayment to immediate holding company	–	(11,145)
Repayment to former ultimate holding company	–	(8,587)
Repayment to a preferred shareholder	–	(2,012)
Repayment to a former shareholder	–	(602)
Repayment of finance lease	**(7)**	(165)
Dividends paid	**(75,830)**	–
Payment for purchase of shares for share award scheme	**(8,000)**	–
NET CASH FROM FINANCING ACTIVITIES	**62,994**	159,605
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(20,151)**	28,716
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**91,154**	60,377
Effect of foreign exchange rate changes	**(2,130)**	2,061
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**68,873**	91,154
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Represented by bank balances and cash	**68,873**	91,154

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

Evergreen Products Group Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 12 July 2017. 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 ("Controlling Shareholders"). The registered office of the Company is PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands and the principal place of business of the Company is 11th Floor, Chiap Luen Industrial Building, 30-32 Kung Yip Street, Kwai Chung, New Territories, Hong Kong.

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 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

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 performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

The Group recognises revenue from the manufacturing and trading of hair products which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

No adjustment is required to made to the amounts recognised in the consolidated statement of financial position at 1 January 2018.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018. Line items that were not affected by the changes have not been included.

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

2.1 HKFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS" (CONTINUED)

Impact on the consolidated statement of financial position

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current liabilities			
Trade and other payables	64,773	4,638	69,411
Contract liabilities	4,638	(4,638)	–

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Operating activities			
Increase in trade and other payables	24,963	4,638	29,601
Increase in contract liabilities	4,638	(4,638)	–

The application of HKFRS 15 has no significant impact on the timing and amounts of revenue in the current year and retained profits at 1 January 2018.

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

2.2 HKFRS 9 "FINANCIAL INSTRUMENTS"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

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

2.2 HKFRS 9 "FINANCIAL INSTRUMENTS" (CONTINUED)

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Financial assets at fair value through profit or loss *HK$'000*
Closing balance at 31 December 2017 – HKAS 39	
Reclassification	–
From deposits and prepayments for life insurance policies	25,230
Opening balance at 1 January 2018	**25,230**

(a) Financial assets at fair value through profit or loss ("FVTPL")

Deposits element of life insurance policies of HK$25,230,000 is reclassified to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments are not solely payments of principal and interest on the principal amount outstanding. No fair value gains or losses were accumulated as at 1 January 2018.

(b) Impairment under ECL mode

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. The balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Group reviewed and assessed the Group's existing financial assets impairment assessment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No material impact on the amount recognised in the current year.

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

2.2 HKFRS 9 "FINANCIAL INSTRUMENTS" (CONTINUED)

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination 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
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, 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.

HKFRS 16 "LEASES"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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

2.2 HKFRS 9 "FINANCIAL INSTRUMENTS" (CONTINUED)

HKFRS 16 "LEASES" (CONTINUED)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with their nature, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$19,630,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$450,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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 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 within the scope of HKAS 17 "Leases", 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 (UPON APPLICATION OF HKFRS 15 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, 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 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (UPON APPLICATION OF HKFRS 15 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2) (CONTINUED)

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.

REVENUE RECOGNITION (PRIOR TO 1 JANUARY 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when goods are delivered and title have passed.

Processing income is recognised when the relevant services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amounts on initial recognition.

Dividend income from investments is recognised when the rights to receive payment have been established.

LEASES

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 or a disposal involving loss of significant influence over an associate 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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 professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. 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.

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. Depreciation on revalued leasehold land and buildings is recognised in profit or loss. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASEHOLD LAND AND BUILDING

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element 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 "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

IMPAIRMENT

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those 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 assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT (CONTINUED)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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) 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.

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 since 1 January 2018. 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 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.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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.

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 collecting contractual cash flows and selling; 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.

(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.

(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 excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposits and bank balances). 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 without significant financing component. 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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;

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

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(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.

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 (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

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.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits for life insurance policies, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest received be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

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.

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 amortised cost

Financial liabilities including trade and other payables, secured bank borrowings, 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.

Interest expense is recognised on an effective interest basis.

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.

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 classified as 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

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/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liability and is included in the "other gains and losses" line item.

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.

Fair value of leasehold land and buildings

Leasehold land and buildings are carried at their revalued amount of HK$128,339,000 (2017: HK$102,666,000) 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 direct comparison approach. 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

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 2018 and 2017.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

KEY SOURCES OF ESTIMATE UNCERTAINTY (CONTINUED)

Valuation of trade receivables

Before the adoption of HKFRS 9, when there is an objective evidence of impairment loss, the Group takes into consideration of the customers' credit history, settlement patterns, subsequent settlements and aging analysis for the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, an impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivable was HK$126,821,000. There is no impairment for the year ended 31 December 2017.

Since the adoption of HKFRS 9 on 1 January 2018, the Group uses provision matrix to calculate ECL for the trade receivables. 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. As at 31 December 2018, the carrying amount of trade receivables is HK$162,473,000, net of impairment loss of Nil. The information about the ECL and the Group's trade receivables are disclosed in note 38 and 20, respectively.

Useful lives of property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives which are determined by the Group. In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful life of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. Should the useful lives of these assets differ from that previously estimated, the calculation of depreciation charges would be affected.

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.

	2018	2017
	HK$'000	*HK$'000*
Group revenue by products		
Wigs, hair accessories and other	**526,498**	446,608
High-end human hair extensions	**165,638**	159,993
Halloween products	**40,034**	40,742
	732,170	647,343

All revenue is recognised at a point of time.

The Group sells hair products to wholesalers, retailers and end-users through e-commerce channel, distributors of direct network and agency network.

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 sales in which revenue has yet been recognised. Sales-related warranties associated with the goods cannot be purchased separately and they serve as an assurance that the goods sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets consistent with its previous accounting treatment.

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.

GEOGRAPHICAL INFORMATION

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

	Revenue from external customers	
	2018	2017
	HK$'000	*HK$'000*
United States of America ("USA")	**594,346**	520,975
People's Republic of China ("PRC")	**50,993**	43,521
United Kingdom	**32,113**	31,753
Others	**54,718**	51,094
	732,170	647,343

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

	2018	2017
	HK$'000	*HK$'000*
Customer A[1]	**138,838**	91,760
Customer B[1]	**103,635**	94,354
Customer C	**93,553**	92,606

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

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:

	2018 HK$'000	2017 HK$'000
Bangladesh	**410,660**	241,879
Hong Kong	**89,443**	87,813
PRC	**51,686**	51,886
USA	**19,592**	18,340
Japan	**2,145**	2,097
Thailand	**7,317**	–
Ukraine	**12,841**	5,750
	593,684	407,765

Note: Non-current assets excluded financial assets at FVTPL/deposits and prepayments for life insurance

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
The amount represents:		
Bank interest income	**279**	153
Processing income	**85**	196
Rental income from warehouses	**982**	964
Interest income from life insurance contracts	**–**	2,058
Sundry income	**1,541**	684
	2,887	4,055

8. OTHER GAINS AND LOSSES

	2018 **HK$'000**	2017 HK$'000
Change in fair value of the financial assets at FVTPL	**1,081**	–
Net gain (loss) from changes in fair value of derivative liabilities	**234**	(315)
Gain on disposal of property, plant and equipment	**6,796**	73
Net foreign exchange gain (loss)	**115**	(3,842)
	8,226	(4,084)

9. OTHER EXPENSES

	2018 **HK$'000**	2017 HK$'000
Donation expense	**1,333**	2,729
Listing expenses	**–**	15,227
	1,333	17,956

10. FINANCE COSTS

	2018 **HK$'000**	2017 HK$'000
Interest on bank borrowings	**25,193**	19,712
Less: amount capitalised in the cost of qualifying assets	**(9,669)**	(7,986)
	15,524	11,726
Interest on finance leases	**–**	1
Interest on redeemable convertible preferred shares	**–**	778
	15,524	12,505

11. PROFIT BEFORE TAX

	2018 **HK$'000**	2017 HK$'000
Profit before tax has been arrived at after charging:		
Amortisation of prepaid lease payments	**342**	343
Depreciation on property, plant and equipment	**27,343**	27,670
Total depreciation and amortisation	**27,685**	28,013
Directors' emoluments *(note 12)*		
– fee	**1,000**	600
– salaries and other benefits	**3,438**	2,518
– housing benefit	**–**	298
– retirement benefit schemes contribution	**78**	68
	4,516	3,484
Staff's salaries and other benefits	**253,250**	220,021
Staff's retirement benefits scheme contributions	**17,956**	17,087
Total staff costs	**275,722**	240,592
Auditor's remuneration	**1,830**	1,400
Cost of inventories recognised as expense (included in cost of goods sold)	**476,405**	417,123
Minimum operating lease payments in respect of rented premises	**4,230**	4,114

The estimated monetary value of accommodation provided to certain directors of the Company of Nil (2017: HK$298,000) is included under directors' housing benefit for the year ended 31 December 2018.

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:

	2018					2017				
	Fees	Salaries and other benefits	Housing benefit	Retirement benefits scheme contribution	Total	Fees	Salaries and other benefits	Housing benefit	Retirement benefits scheme contribution	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	200	–	–	10	210	200	–	149	10	359
Mr. Kwok Yau Lung, Anthony	–	893	–	18	911	–	697	–	18	715
Mr. Chan Kwok Keung	–	1,482	–	18	1,500	–	1,067	–	18	1,085
Mr. Hui Wing Ki *(note iii)*	–	55	–	2	57	–	–	–	–	–
Ms. Jia Ziying	–	323	–	16	339	–	83	–	11	94
Mr. Li Yan Bo	–	110	–	14	124	–	71	–	11	82
Non-executive directors *(note v)*										
Mr. Chang Chih Lung *(note ii)*	–	175	–	–	175	–	200	149	–	349
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 *(note i)*	200	–	–	–	200	100	–	–	–	100
Mr. Sin Hendrick *(note i)*	200	–	–	–	200	100	–	–	–	100
Dr. Yung Bruce Pak Keung *(note i)*	200	–	–	–	200	100	–	–	–	100
Mr. Szeto Yuk Ting *(note i)*	200	–	–	–	200	100	–	–	–	100
	1,000	3,438	–	78	4,516	600	2,518	298	68	3,484

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Notes:

(i) Mr. Lau Ip Keung Kenneth, Mr. Sin Hendrick, Dr. Yung Bruce Pak Keung and Mr. Szeto Yuk Ting, were appointed as independent non-executive director of the Company on 19 June 2017.

(ii) Mr. Chang Chih Lung was resigned as non-executive director of the Company on 15 November 2018.

(iii) Mr. Hui Wing Ki was appointed as 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.

(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.

The five highest paid individuals included 2 directors (2017: 2 directors) of the Company for the year ended 31 December 2018, details of whose emoluments are included above. The emoluments of the remaining highest paid individual(s) during the year were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Employees		
– salaries and other benefits	**2,814**	2,000
– performance-based bonus	**–**	–
– retirement benefits scheme contribution	**54**	54
	2,868	2,054

Their emoluments were within the following bands:

	2018 **No. of employees**	2017 No. of employees
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**1**	–
	3	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 any emoluments for both years.

13. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
The taxation charge comprises:		
Current tax:		
Hong Kong	**35**	607
PRC Enterprise Income Tax ("EIT")	**–**	195
Other jurisdictions	**598**	578
	633	1,380
Overprovision in prior years	**–**	(42)
Deferred tax *(note 30)*		
Current year	**(272)**	(387)
	361	951

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, starting from the current year, 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 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 2019 while the remaining entities in Bangladesh have no assessable profits for both years.

Taxation arising from other jurisdictions, in Japan and the USA, is calculated at the rates prevailing in the relevant jurisdictions. For Japan, the applicable prevailing tax rate was 27% for both years.

Details of the deferred taxation are set out in note 30.

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:

	2018 ***HK$'000***	2017 *HK$'000*
Profit before tax	**110,972**	110,415
Tax at the Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	**18,310**	18,218
Tax effect of expenses not deductible for tax purpose	**3,452**	1,844
Tax effect of income not taxable for tax purpose	**(1,161)**	(6,944)
Tax effect of tax exemptions granted to a subsidiary operated in Bangladesh	**(29,626)**	(26,008)
Tax effect of tax losses not recognised	**4,842**	13,982
Tax effect of deductible temporary differences utilised (not recognised)	**160**	(168)
Effect of different tax rate applicable to subsidiaries operating in the other jurisdictions	**635**	570
Overprovision in prior years	**–**	(42)
Effect of loss under 50:50 arrangement	**3,509**	25
Others	**240**	(526)
Income tax expense for the year	**361**	951

14. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Interim dividend paid – HK4.20 cents (2017: 2017 interim dividend of Nil cents) per share	**25,830**	–
2017 final dividend of – HK8.13 cents (2017: 2016 final dividend of Nil cents) per share	**50,000**	–
	75,830	–

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK2.50 cents (2017: final dividend in respect of the year ended 31 December 2017 of HK8.13 cents) per ordinary share, in an aggregate amount of HK$15,375,000 (2017: HK$50,000,000), 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 owners of the Company is based on the following data on the assumption that the capitalisation issue as disclosed in note 29 has been effective on 1 January 2017:

	2018	2017
	HK$'000	*HK$'000*
Earnings attributable to owner of the Company:		
Earnings for the purpose of calculating basic earnings per share	**110,975**	110,151
Added: Interest expense on redeemable convertible preferred shares	**–**	778
Change in fair value of redeemable convertible preferred shares	**–**	(32,100)
Earnings for the purpose of calculating diluted earnings per share	**110,975**	78,829
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**610,108,000**	468,714,000
Effect of dilutive potential ordinary share:		
Redeemable convertible preferred shares	**–**	65,410,000
Share award issued	**4,679,000**	–
	614,787,000	534,124,000

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 32.

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 2017	89,220	145,089	84,425	55,125	4,669	16,001	12,826	407,355
Additions	–	7,458	50,751	21,834	478	1,186	582	82,289
Disposals	–	–	(40)	(733)	(6)	(487)	(5)	(1,271)
Transfers to freehold land and factory buildings	–	69,441	(69,441)	–	–	–	–	–
Revaluation increase arising on revaluation	12,678	–	–	–	–	–	–	12,678
Exchange adjustments	768	(5,907)	(4,011)	(958)	(116)	(20)	353	(9,891)
At 31 December 2017	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
Comprising								
At cost	–	227,219	190,365	106,199	6,374	20,080	21,733	571,970
At professional valuation	128,339	–	–	–	–	–	–	128,339
At 31 December 2018	128,339	227,219	190,365	106,199	6,374	20,080	21,733	700,309
DEPRECIATION								
At 1 January 2017	–	37,119	–	39,603	2,666	12,273	10,680	102,341
Provided for the year	3,365	15,236	–	6,145	436	1,564	924	27,670
Disposals	–	–	–	(733)	(6)	(446)	–	(1,185)
Eliminated on revaluation	(3,463)	–	–	–	–	–	–	(3,463)
Exchange adjustments	98	(284)	–	188	(19)	53	350	386
At 31 December 2017	–	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
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
Carrying values representing								
Cost	–	164,010	61,684	30,065	1,948	3,236	1,802	262,745
Valuation	102,666	–	–	–	–	–	–	102,666
At 31 December 2017	102,666	164,010	61,684	30,065	1,948	3,236	1,802	365,411

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment other than freehold land and construction in progress are depreciated on a straight-line basis at the following rates per annum:

Factory buildings, leasehold land and buildings	4% or over the respective lease term, whenever is shorter
Machinery and equipment, furniture and fixtures and leasehold improvements	20%
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 of the Group, in Hong Kong and the PRC, as at 31 December 2018 and 31 December 2017 and the buildings of the Group in the United States and Japan as at 31 December 2018 and 31 December 2017 and buildings of the Group in Thailand and Ukraine as at 31 December 2018 were revalued by Greater China Appraisal Limited ("Greater China") of which the registered office is at Room 2703, 27/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, an independent qualified professional valuers. Greater China, which is not connected with the Group, is a member of Hong Kong Institute of Surveyors ("HKIS"). The valuations, which conform to the Royal Institute of Chartered Surveyors ("RICS") Valuation Standards 2017 published by the RICS and the HKIS Valuation Standard (2017 Edition) published by the HKIS, were arrived at using the direct comparison approach and income approach. The valuation has been adopted by the directors in the consolidated financial statements and the property revaluation increase of HK$13,928,000 (2017: HK$16,141,000) have been credited to the property revaluation reserve for the year ended 31 December 2018.

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 2018 and 31 December 2017 using significant unobservable input (Level 3) are disclosed as below.

Description	Fair value at		Valuation techniques	Significant unobservable inputs	Sensitivity
	31.12.2018	31.12.2017			
	HK$'000	*HK$'000*			
Leasehold land and industrial buildings in Hong Kong	**79,900**	71,300	Direct comparison method	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$4,103 to HK$4,743 (2017: HK$3,370 to HK$3,998) 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**	940	Direct comparison method	Market unit rate, mainly taking into account the time, location and floor level, between the comparables, which is ranging from HK$1,150,000 to HK$1,480,000 (2017: HK$918,000 to HK$1,268,000) 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	**8,367**	8,070	Direct comparison method	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from RMB10,099 to RMB79,221 (2017: RMB4,804 to RMB74,545) 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	**2,881**	2,853	Direct comparison method	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables, which is ranging from RMB18,978 to RMB85,714 (2017: RMB26,000 to RMB88,523) per square meter	An 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	**319**	336	Direct comparison method	Market unit rate, mainly taking into account the time, location and floor level, between the comparables, which is ranging from RMB200,000 to RMB220,000 (2017: RMB94,000 to RMB200,000) 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
	31.12.2018	31.12.2017			
	HK$'000	*HK$'000*			
Offices in the Japan	**2,048**	2,023	Direct comparison method	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from YEN179,000 to YEN189,000 (2017: YEN115,100 to YEN269,000) 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	**18,230**	17,144	Direct comparison method	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from US$253 to US$558 (2017: US$212 to US$418)	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	**6,387**	–	Direct comparison method	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from Baht 36,000 to Baht 50,000	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	**9,217**	–	Direct comparison method	Market unit rate, including time, location, quality, floor level and size, between the comparables, which is ranging from 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.
	128,339	102,666			

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$29,784,000 (2017: HK$33,461,000) as at 31 December 2018.

17. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Non-current asset	**18,412**	19,939
Current asset	**344**	362
	18,756	20,301

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/DEPOSIT AND PREPAYMENTS TO LIFE INSURANCE POLICIES

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 life insurance contracts carries guaranteed interests at interest rates ranging from 3.65% to 5.20% (2017: 3.00% to 5.20%) per annum plus a premium determined by counterparty during the tenures of the contracts.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Particulars of the insurance contracts are as follows:

Insured sum *HK$'000*	Upfront payment *HK$'000*	Interest rates
2018		
4,588 to 35,100	281 to 7,761	3.65% to 5.20% per annum
2017		
4,588 to 35,100	281 to 7,761	3.00% 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.

19. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**342,430**	298,028
Work in progress	**51,272**	41,097
Finished goods	**37,187**	45,915
	430,889	385,040

20. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**162,473**	126,821
Other receivables	**19,645**	7,107
Purchase rebate receivables	**15,953**	16,000
Other tax receivables	**4,733**	3,009
Prepayments	**13,969**	9,245
Deposits paid to suppliers	**74,534**	82,870
	291,307	245,052
Less: Deposits for acquisition of property, plant and equipment	**(21,321)**	(22,415)
	269,986	222,637
Analysis for reporting purpose as:		
Non-current assets	**21,321**	22,415
Current assets	**269,986**	222,637
	291,307	245,052

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**119,487**	89,509
61 – 90 days	**27,579**	31,184
91 – 120 days	**10,895**	4,070
Over 120 days	**4,512**	2,058
	162,473	126,821

The Group 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.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

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. Approximately 90% (2017: 91%) of the trade receivables as at 31 December 2018 are neither past due nor impaired and they were assessed to be of good credit rating attributable under the credit control system used by the Group.

As at year ended 31 December 2018, trade receivables of HK$14,653,000 (2017: HK$11,465,000) are past due but not impaired. 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. Accordingly, the Group does not consider these balances being impaired. The Group does not hold any collateral over these balances. The aging analysis of these trade receivables is as follows:

AGING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**13,707**	11,035
61 – 90 days	**104**	26
91 – 120 days	**431**	128
Over 120 days	**411**	276
	14,653	11,465

Most of the Group's trade receivables are denominated in functional currency of the relevant group entities.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 38.

21. 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:

	2018 ***HK$'000***	2017 *HK$'000*
Hong Kong dollars	**59,500**	67,310

The deposits carry fixed interest rate ranging from 0.001% to 1.89% (2017: 0.001% to 0.79%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

22. 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:

	2018 ***HK$'000***	2017 *HK$'000*
Hong Kong dollars	**13,063**	17,144

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 2.3% (2017: 0% to 1%) per annum.

23. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**38,582**	16,859
Accrued staff costs	**20,141**	17,280
Accruals and other payables	**6,050**	7,013
	64,773	41,152

The following is an aged analysis of trade payables presented based on invoice date at the end of each reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**38,582**	16,859

Included in the Group's trade payables are the following amounts denominated in currency other than the functional currency of the relevant group entities:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong dollars	**7,281**	6,719

24. CONTRACT LIABILITIES

	2018	2017
	HK$'000	*HK$'000*
Receipt in advance for sale of hair products	**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.

25. 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.

26. SECURED BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Trust receipts loans and discounted bills	**260,993**	154,325
Mortgage and short term loans	**385,795**	351,557
	646,788	505,882

The carrying amounts of the borrowings are analysed as follows:

Denominated in	**2018**	2017	Interest rate
	HK$'000	*HK$'000*	
HK$	**357,486**	288,331	Hong Kong Dollar Prime Rate minus 2.5% to Hong Kong Dollar Prime Rate plus 1% or HIBOR plus 2.75%
US$	**289,302**	217,551	LIBOR plus 3%

26. SECURED BANK BORROWINGS (CONTINUED)

Bank borrowings with repayment on demand clause are classified as current liabilities on the consolidated statement of financial position.

The Group's bank loans are payable as follows:

	2018 HK$'000	2017 HK$'000
Bank borrowings are repayable (Note)		
Within 1 year	**546,953**	363,927
After 1 year but within 2 years	**58,251**	76,299
After 2 years but within 5 years	**32,341**	53,056
After 5 years	**9,243**	12,600
Total bank borrowings	**646,788**	505,882
Comprising:		
Amounts due within one year shown under current liabilities and containing a repayment on demand clause	**546,953**	363,927
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)	**99,835**	141,955
Total	**646,788**	505,882

Note: The amounts due are based on the scheduled repayment dates set out in the bank borrowings.

The bank borrowings are arranged at floating rates and the average effective interest rates of the borrowings are ranging from 2.50% to 5.39% (2017: 1.75% to 5.00%) per annum.

As at 31 December 2018 and 2017, the Group's banking facilities were secured by:

(a) pledge of the Group's bank deposits of approximately HK$84,785,000 (2017: HK$100,539,000);

(b) the Group's land and buildings in Hong Kong of approximately HK$80,890,000 (2017: HK$72,240,000);

(c) negative pledge on the assets of subsidiaries in the PRC and Bangladesh; and

(d) insurance contracts entered for a director of the Company.

27. DERIVATIVE LIABILITIES

	2018 **HK$'000**	2017 HK$'000
Derivative liabilities		
Interest rate swap contract	**499**	733

Interest rate swap contract:

Notional amount at each maturity date	Maturity	Interest rate
As at 31 December 2018 and 2017		
HK$15,000,000	From July 2016 to July 2021	Fixed rate at 3.28% to be swapped with floating HIBOR

28. OBLIGATIONS UNDER FINANCE LEASE

	2018 **HK$'000**	2017 HK$'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 fixtures and equipment under finance lease. The average lease term is 5 years (31 December 2017: Nil). Interest rates underlying all obligations under finance lease are fixed at respective contract dates ranging at 6.03% (31 December 2017: Nil) per annum. The lease has no terms of renewal or purchase options and escalation clauses.

28. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

	Minimum lease payment		Present value of minimum lease payment	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'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)**	–	**–**	–
Present value of lease obligations	**208**	–	**208**	–
Less: Amount due for settlement with 12 months	**(52)**	–	**(39)**	–
Amount for settlement after 12 months	**156**	–	**169**	–

29. SHARE CAPITAL OF THE COMPANY

	Notes	Number of shares	Share capital *US$'000*
Ordinary shares of US$0.01 each			
Authorised:			
At 1 January 2017		400,000,000	4,000
Increase through re-designation from redeemable convertible preferred shares	*(a)*	100,000,000	1,000
Increase in authorised share capital	*(b)*	500,000,000	5,000
At 31 December 2017 and 31 December 2018		1,000,000,000	10,000
Issued and fully paid:			
At 1 January 2017		100,000,000	1,000
Capitalisation issue	*(c)*	324,341,483	3,243
Issue of shares on initial public offering	*(c)*	153,750,000	1,538
Conversion of redeemable convertible preferred shares *(note 31)*	*(d)*	36,908,517	369
At 31 December 2017 and 31 December 2018		615,000,000	6,150

29. SHARE CAPITAL OF THE COMPANY (CONTINUED)

Shown in the consolidated financial statements as:

	Amount *HK$'000*
At 31 December 2017 and 31 December 2018	47,847

Notes:

(a) In July 2017, 100,000,000 authorised unissued redeemable convertible preferred shares is redesignated as ordinary share at par value of US$0.01 each.

(b) The authorised share capital of the Company was increased from US$5,000,000 to US$10,000,000 at par value of US$0.01 each.

(c) Pursuant to the written resolution passed by the shareholders of the Company on 19 June 2017, conditional upon the share premium account of the Company being credited as a result of the global offering, the directors of the Company were authorised to capitalise the amount of US$3,243,415 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 324,341,483 shares for allotment and issue to the existing shareholders of the Company.

On 12 July 2017, 153,750,000 new shares of the Company have been issued at the price of HK$1.65 per share under the global offering and 324,341,483 shares were allotted and issued to the existing shareholders of the Company pursuant to the resolution mentioned above. The shares of the Company were successfully listed on the same date.

(d) On 12 July 2017, Preferred Shares were converted into the Company's ordinary shares at par value of US$0.01 each and 36,908,517 ordinary shares were issued.

30. DEFERRED TAXATION

	Revaluation of land and buildings *HK$'000*	Accelerated accounting depreciation *HK$'000*	Total *HK$'000*
At 1 January 2017	3,526	(792)	2,734
Charge to equity	1,396	–	1,396
Credit to profit or loss	–	(387)	(387)
At 31 December 2017	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

The Group has unused tax losses of approximately HK$60,257,000 (2017: HK$30,913,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

31. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal value *HK$'000*
Redeemable convertible preferred shares of US$0.01 each:		
Authorised:		
Balance at 1 January 2017	100,000,000	1,000
Converted into ordinary shares	(100,000,000)	(1,000)
Balance at 31 December 2017	–	–
Issued and fully paid:		
Balance at 1 January 2017	36,908,517	15,000
Converted into ordinary shares (note 29(d))	(36,908,517)	(15,000)
Balance at 31 December 2017	–	–

The 36,908,517 series A the Preferred Shares are designated as financial liabilities at FVTPL.

31. REDEEMABLE CONVERTIBLE PREFERRED SHARES (CONTINUED)

On 12 July 2017 ("Listing Date"), the redeemable convertible preferred shares were converted into the Company's ordinary shares at par value of US$0.01 each. Immediately before the conversion, the fair value of the redeemable convertible preferred shares was approximately HK$173,156,000, which was measured by the Company with reference to the market price on the conversion date as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for six months after the Listing Date.

The movements of the Preferred Shares for the year ended 31 December 2017 are set out below:

	Amount *HK$'000*
At 1 January 2017	205,256
Change in fair value of redeemable convertible preferred shares	(32,100)
Converted into ordinary shares	(173,156)
At 31 December 2017	–

32. SHARE BASED PAYMENT TRANSACTIONS

SHARE OPTION SCHEME

The Group adopted a share option scheme on 19 June 2018 ("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.

32. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE OPTION SCHEME (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 under the Share Award Scheme and 5,334,000 ordinary shares of the Company were distributed. The fair value of the shares awards amounting to HK$2,919,000 is recognised as staff cost in the profit or loss for the year ended 31 December 2018. As at 31 December 2018, 4,001,000 ordinary shares of the Company were held by trustee of the Share Award Scheme.

The closing price of the shares of the Company immediately before the grant of awarded shares was HK$1.50 per share.

33. 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 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. 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.

34. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**2,440**	3,275
In the second to fifth year inclusive	**3,837**	3,668
Over five years	**13,353**	13,040
	19,630	19,983

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for terms ranging from 2 years to 34 years at fixed monthly rentals.

35. CAPITAL COMMITMENT

	2018 HK$'000	2017 HK$'000
Contracted but not provided in the consolidated financial statements in respect of property, plant and equipment	**1,399**	–

36. 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	2018 HK$'000	2017 HK$'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 directors and other members during the year were as follows:

	2018 HK$'000	2017 HK$'000
Short-term employee		
Salaries and other benefits	**5,190**	4,262
Retirement benefits scheme contribution	**87**	105
	5,277	4,367

The remuneration of directors and other members is determined having regard to the performance of individuals and market trends.

37. 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 26, 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.

38. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 *HK$'000*	2017 *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**351,729**	366,851
Financial assets at FVTPL	**24,766**	–
	376,495	366,851
Financial liabilities		
Liabilities at amortised cost	**724,215**	530,467
Derivative liabilities	**499**	733
Obligation under finance lease	**208**	–
	724,922	531,200

(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 and other payables, secured bank borrowings, derivative 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, interest rate risk and other price 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.

38. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	Liabilities		Assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Australian dollars	**–**	–	**690**	723
Canadian dollars	**–**	–	**1,150**	1,202
Euro dollars	**–**	–	**1,582**	1,439
Great British Pound	**–**	–	**798**	782
RMB	**–**	–	**688**	744
HK$	**610,663**	377,969	**175,437**	59,292

The directors of the Company consider that the Group is exposed to minimal currency risk. Sensitivity on foreign currency risk is therefore not presented.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to 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 26 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 27 for both years.

38. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Interest rate risk (Continued)

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 (2017: 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 (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would decrease/increase by approximately HK$2,700,000 (2017: decrease/increase by approximately HK$2,112,000) respectively.

Other price risk

The Group's derivative liabilities are measured at fair value as at year ended. Therefore, the Group is exposed to other price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. The management considers that the other price risk for derivative liabilities are insignificant and therefore no sensitivity analysis is performed.

38. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

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.

The Group has concentration of credit risk as 26% and 64% and 19% and 58% of the total trade receivables as at 31 December 2017 and 31 December 2018 are due from the Group's largest customer and the five largest customers, respectively.

In addition, the Group has concentration of credit risk by geographical location as 98% and 96% of the total trade receivables as at 31 December 2017 and 31 December 2018 respectively are due from customers located in the USA.

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 perform impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) in trade receivables individually based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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 0.01% on trade receivables overdue 90 days. Thus, the loss allowance provision of the trade receivables as at the date of initial recognition of HKFRS 9 on 1 January 2018 and 31 December 2018 was insignificant. There were no credit-impaired trade receivables as at 1 January 2018 and 31 December 2018. In this regard, the management of the Group considers that the credit risk on trade receivables is significant reduced. The gross carrying amount of trade receivables as at 31 December 2018 is HK$162,473,000.

38. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Impairment assessment on trade and other receivables subject to ECL model (Continued)

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.

There has been no change in the estimation techniques or significant assumptions made during the year ended 31 December 2018.

As at 31 December 2018, the Group has HK$14,653,000 of trade receivables past due over 90 days but not impaired. The Group does not consider such balances are defaulted due to long and on-going business relationship and good repayment record from these customers.

For other receivables, in order to minimise the credit risk, Directors continuously monitor the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. The Group assess the loss allowance for other receivables on 12-month ECL basis. For the purposes of internal credit risk assessment, the Group use historical default experience and forward looking information to access whether credit risk has increased significantly since initial recognition. In the opinion of the Directors, the internal credit rating of other receivable is at low risk. The Group has considered the consistently low historical default rate in connection with payments and concluded that credit risk inherent in the Group's outstanding balances is insignificant.

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.

38. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

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.

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.

38. 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	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

	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 2017								
Financial liabilities								
Non-interest bearing								
Trade payables	N/A	–	16,859	–	–	–	16,859	16,859
Derivative liabilities	N/A	–	–	–	–	733	733	733
Amount due to a non-controlling shareholder of a subsidiary	N/A	7,726	–	–	–	–	7,726	7,726
Interest bearing								
Secured bank borrowings	3.33	505,882	–	–	–	–	505,882	505,882
		513,608	16,859	–	–	733	531,200	531,200

38. FINANCIAL INSTRUMENTS (CONTINUED)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these bank loans amounted to approximately HK$646,788,000 (2017: HK$505,882,000). 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 loans 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 loans 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 2018	**3.69**	**583,055**	**68,058**	**38,784**	**10,007**	**699,904**	**646,788**
31 December 2017	3.33	370,299	85,847	58,771	12,643	527,560	505,882

(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).

38. 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 2018 HK$'000	Fair value 2017 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Derivative liability				
– Interest rate swaps	Liabilities – 499	Liabilities – 733	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/ Deposits and prepayments to life insurance policies	Assets – 24,766	Assets – 25,230	Level 2	Surrender value provided by counterparty by reference to cash value of the insurance contracts.

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.

39. 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 former holding company	Amount due to a former shareholder	Amount due to a preferred shareholder	Amount due to immediate holding company	Amount due to a non-controlling shareholder of a subsidiary	Secured bank borrowings	Obligation under finance leases	Interest payable (included in other payable)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	46,644	8,587	602	1,234	11,145	–	503,656	165	–	572,033
Finance costs	–	–	–	–	–	–	–	–	19,713	19,713
Financial cash flows	(46,644)	(8,587)	(602)	(2,012)	(11,145)	7,726	2,226	(165)	(19,713)	(78,916)
Interest on redeemable convertible preferred shares	–	–	–	778	–	–	–	–	–	778
At 31 December 2018	–	–	–	–	–	7,726	505,882	–	–	513,608
At 1 January 2018	–	–	–	–	–	7,726	505,882	–	–	513,608
Finance costs	–	–	–	–	–	–	–	–	25,194	25,194
Financial cash flows	30,000	–	–	–	–	1,119	140,906	(7)	(25,194)	146,824
At 31 December 2018	30,000	–	–	–	–	8,845	646,788	(7)	–	685,626

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name	Issued and fully paid-up capital/ contributed capital	Attributable equity interest directly held by the Company 2018	2017	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%	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%	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%	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. (Formerly known as 廣州訓修髮製品有限公司 Evergreen Products Factory (GZ) Co., Ltd.)	US$1,500,000	100%	100%	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%	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%	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%	UK	Sales of hair products

40. 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 2018	2017	Place of registration/ incorporation	Principal activities
Wisdom Ocean Limited	HK$10,000	100%	100%	Hong Kong	Trading of hair products through internet
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%	USA	Property holding
Purple Star Inc.	US$1,000	100%	100%	USA	Trading of hair products through internet
Red Stone Inc.	US$50,000	100%	100%	USA	Property holding
Evergreen Products Factory Limited 訓修製品廠有限公司	HK$3,000,000	100%	100%	Hong Kong	Manufacturing and trading of hair products and investment holdings

41. 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:

	2018	2017
	HK$'000	*HK$'000*
Non-current asset		
Investment in a subsidiary	**463,112**	473,712
Current assets		
Prepayments and other receivables	**12,280**	–
Bank balances and cash	**328**	3,696
	12,608	3,696
Current liabilities		
Other payables	**2,850**	1,000
Secured bank borrowings	**21,000**	–
Amount due to a subsidiary	**8,000**	–
	31,850	1,000
Net current (liabilities) assets	**(19,242)**	2,696
	443,870	476,408
Capital and reserves		
Share capital	**47,847**	47,847
Reserves	**396,023**	428,561
Equity attributable to owners of the Company	**443,870**	476,408

42. 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$'000*	(Accumulated loss) retained profit *HK$'000*	Total *HK$'000*
At 1 January 2017	–	–	–	(9,990)	(9,990)
Profit for the year and total comprehensive income	–	–	–	71,601	71,601
Ordinary shares issued	241,726	–	–	–	241,726
Transaction costs attributable to issue of new ordinary shares	(19,827)	–	–	–	(19,827)
Conversion of redeemable convertible preferred shares	170,285	–	–	–	170,285
The effect of capitalisation issue	(25,234)	–	–	–	(25,234)
At 31 December 2017	366,950	–	–	61,611	428,561
Loss for the year and total comprehensive expense	–	–	–	(27,457)	(27,457)
Employee share award scheme:					
– Value of employee services	–	2,919	–	–	2,919
– Shares withheld for share award scheme	–	–	(8,000)	–	(8,000)
– Vesting of shares of share award scheme	–	(2,000)	2,000	–	–
At 31 December 2018	366,950	919	(6,000)	34,154	396,023

43. EVENT AFTER THE REPORTING PERIOD

Ir. Cheung Siu Wa has been appointed as an independent non-executive director of the Company with effect from 18 February 2019.

Five-Year Financial Summary

Results	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	533,908	554,479	595,682	647,343	**732,170**
Gross profit	174,104	194,841	211,253	230,220	**255,765**
Profit before taxation	71,764	71,375	37,017	110,415	**110,972**
Profit for the year attributable to:	70,373	68,739	32,757	109,464	**110,611**
Owners of the Company	70,326	68,706	32,970	110,151	**110,975**
Non-controlling interests	47	33	(213)	(687)	**(364)**
Basic earnings per share (HK cents)	0.21	0.20	0.10	0.24	**0.18**
Dividends	20,000	268,000	50,000	50,000	**41,205**

Assets and liabilities	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Non-current assets	355,567	276,836	353,809	432,995	**618,450**
Current assets	462,237	516,964	630,687	800,597	**855,839**
Current liabilities	411,033	462,768	633,389	558,047	**758,562**
Net current assets (liabilities)	51,204	54,196	(2,702)	242,550	**97,277**
Non-current liabilities	5,450	2,688	207,990	3,743	**4,859**
Net assets	401,321	328,344	143,117	671,802	**710,868**