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KOS INTERNATIONAL HOLDINGS LIMITED

高奧士國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8042



2019

ANNUAL REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Ka Kin Kevin (*Chairman*)
Mr. Chan Ka On Eddie
Mr. Chan Ka Shing Jackson

Independent Non-executive Directors

Mr. Tong Kam Piu
Mr. Poon Kai Kin
Mr. Wang Ho Pang

AUDIT COMMITTEE

Mr. Poon Kai Kin (*Chairman*)
Mr. Tong Kam Piu
Mr. Wang Ho Pang

REMUNERATION COMMITTEE

Mr. Tong Kam Piu (*Chairman*)
Mr. Poon Kai Kin
Mr. Wang Ho Pang

NOMINATION COMMITTEE

Mr. Wang Ho Pang (*Chairman*)
Mr. Tong Kam Piu
Mr. Poon Kai Kin

AUTHORISED REPRESENTATIVES

Mr. Chan Ka On Eddie
Mr. Chan Ka Shing Jackson

COMPANY SECRETARY

Ms. Chang Kam Lai

COMPLIANCE OFFICER

Mr. Chan Ka Shing Jackson

COMPLIANCE ADVISER

HeungKong Capital Limited
Suite 622, 6th Floor
Ocean Centre, Harbour City
Tsim Sha Tsui
Kowloon, Hong Kong

LEGAL ADVISER

As to Hong Kong Law
Stephenson Harwood

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 610, 6th Floor
Ocean Centre
No. 5 Canton Road
Tsim Sha Tsui
Kowloon, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
China Construction Bank (Asia) Corporation Limited

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

STOCK CODE

8042

COMPANY'S WEBSITE

www.kos-intl.com

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of the Company, I am pleased to present to you the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019.

After the Group's successful listing on GEM of The Stock Exchange of Hong Kong Limited on 12 October 2018, the following year was challenging indeed. A number of factors, including uncertainties in the global economy over the Sino-US trade dispute, social unrest in Hong Kong, and the coronavirus (COVID-19) outbreak, combined to create unfavourable market conditions and trigger a decline in recruitment demands in both the Hong Kong and Greater Bay Area markets. Despite these hurdles, the Group remains cautiously optimistic about building a sustainable and futureproof business.

REVIEW

For the year ended 31 December 2019, the Group's revenue increased by 22% from approximately HK\$66.3 million in 2018 to approximately HK\$80.9 million. This increase was primarily due to the expansion of our business operations in Hong Kong and the Greater Bay Area. However, slower than expected turnover growth, hampered by poor performance in the second half of the year due to a decline in recruitment demand, was a result of the recent social unrest in Hong Kong.

Over the year, the Group established recruitment operations in the People's Republic of China (the "PRC"), set up a new brand in the form of 'KOS solutions', and hired new internal staff to expand the Group's business operations. Direct costs increased by 33% from approximately HK\$47.7 million for the year ended 31 December 2018 to approximately HK\$63.5 million for the year ended 31 December 2019. Since the Group was listed on GEM in October 2018, and whilst the corporate expenses with the listing status were only incurred in the fourth quarter of the previous year, the Group recorded an increase in other expenses and losses from approximately HK\$8.4 million for the year ended 31 December 2018 to approximately HK\$14.9 million for the year ended 31 December 2019. As a result, profit for the year decreased from approximately HK\$8.1 million (excluding non-recurring listing expenses) for the year ended 31 December 2018 to approximately HK\$1.7 million for the year ended 31 December 2019.

OUTLOOK

Looking ahead into 2020, the Group is optimistic about the human resources markets in Hong Kong and the Greater Bay Area. To increase the Group's value for our shareholders, we will continue to seize opportunities to further penetrate into the human resources services market in Hong Kong and to establish our presence in the PRC recruitment services market. We believe that with our strong reputation, well-established business relationships with clients across a diverse range of industries, possession of a sizeable pool of registered candidates within our database, and excellent management team with a proven track record supported by our experienced execution team, the Group is well-positioned to compete against the opposition.

Chairman's Statement

APPRECIATION

Last but not least, I would like to sincerely express my gratitude to all our shareholders, customers, and stakeholders for their constant support. I would also like to give special thanks to our management team and colleagues for their professionalism, dedication, and commitment; their service over the year has been invaluable. Going forward, I am certain that through our determination and team-oriented mindset, we will keep striving to reach higher and create more value for the Group and our shareholders.

Chan Ka Kin Kevin

Chairman and Executive Director

Hong Kong, 23 March 2020

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Business Review

We are a reputable Hong Kong-based human resources solutions provider, principally engaged in high quality recruitment services, and secondment and payroll services since 2009.

Under our recruitment services, we identify, screen, assess, and procure qualified candidates for our clients for positions at all levels, including administrative, executive, managerial, and professional. For our secondment and payroll services, we take on board candidates that are either sourced by our Group or our clients themselves and second them to our clients. We also assist in providing other administration services at clients' requests.

The Group's revenue increased by approximately HK\$14,581,000 or 22%, from approximately HK\$66,291,000 for the year ended 31 December 2018 to approximately HK\$80,872,000 for the year ended 31 December 2019. This increase was mainly attributable to the increase in revenue from recruitment and secondment and payroll services.

Comparing the revenue for the years ended 31 December 2018 and 2019, our recruitment services segment delivered a year-to-year growth of 33% and we have successfully diversified the Group's client portfolio, which now includes commercial organisations, as well as local and Asian-based financial services clients. A new team has been formed to focus on the recruitment services of front, mid, and back-office roles for the financial services sector, targeting local and Asian-based clients.

We have also successfully expanded our business into the PRC, opening our first office in Shenzhen at the beginning of 2019. The performance of our PRC operation is progressing well, and further expansion in the PRC will take place in 2020.

The total revenue from recruitment services increased by approximately HK\$12,048,000 from approximately HK\$36,001,000 for the year ended 31 December 2018 to approximately HK\$48,049,000 for the year ended 31 December 2019.

Comparing the revenue for the years ended 31 December 2018 and 2019, our secondment and payroll services segment delivered a year-to-year growth of 8%. In fact, the total revenue from secondment and payroll services increased by approximately HK\$2,533,000 from approximately HK\$30,290,000 for the year ended 31 December 2018 to approximately HK\$32,823,000 for the year ended 31 December 2019.

Management Discussion and Analysis

With a high calibre professional with over 20 years' HR solutions experience – gained from an international listed services provider – joining us and together with the strengthening and broadening of the team, these had led to the growth in our secondment and payroll services. Together with the newly established KOS solutions brand, we are well-positioned to support businesses that require large scale manpower flexibility and tailor-made HR outsourcing solutions. Our services cover sizeable recruitment projects, payroll and HR outsourcing, as well as outplacement and career transformation. By offering a comprehensive range of workforce solutions and services, KOS Staffing and KOS solutions assist our clients at various stages in their evolution, resulting in cost reductions across their workforce and improved productivity, quality, and efficiency.

For the year ended 31 December 2019, the Group's turnover increased by 22% compared to a year ago. Despite the challenging conditions encountered, such growth was attributable to the expansion and diversification of business operations in both Hong Kong and the Greater Bay Area. Meanwhile, Hong Kong's economic environment became increasingly difficult due to social unrest in the second half of 2019, which resulted in lower than expected turnover growth.

The Group has been investing heavily in building up its talent pool and employer branding throughout 2019. Significant staff costs and other expenses were incurred in launching new brands and businesses, re-branding and strengthening existing services offerings, recruiting seasoned operators and experienced recruiters to work in both Hong Kong and the PRC, and expanding our business presence outside Hong Kong. These cost increments have had a direct impact on the profit and loss account.

As a result, the Group recorded a decrease in total comprehensive income to approximately HK\$1,676,000 for the year ended 31 December 2019 as compared to total comprehensive income of approximately HK\$8,083,000 (if excluding the effect of the non-recurring listing expenses) for the year ended 31 December 2018.

By diversifying our services offerings and expanding business beyond Hong Kong, the Group is well positioned to becoming a total HR solutions provider. We are confident that, with the costs incurred in 2019, the Group is poised to generate higher and better returns in future years, and that we will be more resilient to market volatility.

Management Discussion and Analysis

Prospects

The end of the 2019 financial year marked the beginning of the second year since KOS was listed on GEM of The Stock Exchange of Hong Kong Limited. Based on the unpredictable global market climate, social unrest in Hong Kong, and the coronavirus (COVID-19) outbreak, we expect 2020 will yet continue to be a challenging year.

To continue the Group's revenue growth in 2020 continues to be a top priority. We will also leverage our strong client base and brand awareness in Hong Kong to expand our services throughout the region.

Key development areas include:

- a. for recruitment services, the Group will further expand into the PRC in 2020;
- b. for secondment, payroll, and outplacement services, the Group – under the leadership of the industry expert – will tap into a new client base. This will require a one-stop-shop human resources solution during this challenging and uncertain business landscape.

In order to mitigate potential business risks, the management team will remain agile and:

- (i) continue to diversify the Group's lines of services and expand our client base to broaden revenue streams
- (ii) closely monitor the performance of new services streams
- (iii) put more focus on expansion in the Greater Bay Area
- (iv) create a strong corporate brand in both Hong Kong and the PRC markets by raising overall brand awareness
- (v) upgrade our software, computers, and network systems to ensure top quality performance

Looking ahead, the Group will remain distinctive and alert about the changes of the human resources services landscape. With the Group's reputation and experience, we will continue to look for opportunities to expand our business operations, sustain our market position, and strengthen our competitive edge to enhance our business performance and provide better returns to our shareholders.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Our revenue was derived from the provision of recruitment services and secondment and payroll services.

The Group's revenue amounted to approximately HK\$80,872,000 for the year ended 31 December 2019, increased by approximately HK\$14,581,000 or 22% as compared with approximately HK\$66,291,000 for the year ended 31 December 2018.

Set forth below is a breakdown of the total revenue during the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	HK\$'000	% of revenue	HK\$'000	% of revenue
Recruitment services				
– Hong Kong	44,707	55.3	36,001	54.3
– The PRC	3,342	4.1	–	–
	48,049	59.4	36,001	54.3
Secondment and payroll services				
– Hong Kong	30,490	37.7	26,951	40.7
– Macau	2,333	2.9	3,339	5.0
	32,823	40.6	30,290	45.7
Total revenue	80,872	100.0	66,291	100.0

(i) Revenue from recruitment services

We provide recruitment services primarily in Hong Kong and the PRC. Revenue from recruitment services amounted to approximately HK\$48,049,000 for the year ended 31 December 2019 and approximately HK\$36,001,000 for the year ended 31 December 2018, representing approximately 59.4% and 54.3% of the total revenue, respectively.

Although the Group recorded an increased revenue from recruitment services, a slower than expected turnover growth hampered by poorer performances in the second half of 2019 when the Group's recruitment business was overshadowed by the social unrest in Hong Kong which affected our clients' willingness and timetable of their recruitment process.

Management Discussion and Analysis

(ii) Revenue from secondment and payroll services

We provide secondment and payroll services in Hong Kong and Macau. Revenue from secondment and payroll services amounted to approximately HK\$32,823,000 for the year ended 31 December 2019 and approximately HK\$30,290,000 for the year ended 31 December 2018, representing approximately 40.6% and 45.7% of the total revenue, respectively.

(iii) Revenue by geographical location

During the year ended 31 December 2019 and 2018, Hong Kong remained as our major market, which contributed approximately 93.0% and 95.0% of the total revenue, respectively. The revenue generated from Hong Kong increased from approximately HK\$62,952,000 for the year ended 31 December 2018 to approximately HK\$75,197,000 for the year ended 31 December 2019. Such increase was primarily due to an increase in revenue derived from both the recruitment services and secondment and payroll services in Hong Kong. The scale of our secondment and payroll services business in Macau and recruitment services in the PRC were still relatively small.

Staff costs

Staff costs comprise (i) the labour cost associated with deployment of seconded staff for the secondment and payroll services and (ii) the salaries and other staff benefits the Group paid to its internal staff for carrying on and in support of its business operation. The majority of the internal staff costs are the salaries and other staff benefits relating to the consultants for carrying on the recruitment services.

For the year ended 31 December 2019, the staff costs were approximately HK\$63,499,000 (2018: approximately HK\$47,714,000), which accounted for approximately 78.5% (2018: approximately 72.0%) of the revenue. Seconded staff costs for the year ended 31 December 2019 was approximately HK\$29,996,000 (2018: approximately HK\$27,724,000), representing approximately 47.2% of the total staff costs (2018: approximately 58.1%). The internal staff costs amounted to approximately HK\$33,503,000 for the year ended 31 December 2019 (2018: approximately HK\$19,990,000), representing approximately 52.8% of the total staff costs (2018: approximately 41.9%).

The staff costs increased by approximately HK\$15,785,000 or 33.1%. Such increase was mainly due to the increase in the internal staff costs by approximately HK\$13,513,000 as a result of the increased number of the internal staff in Hong Kong and the new recruitment operations in the PRC.

Management Discussion and Analysis

Other expenses and losses

Other expenses and losses increased by approximately HK\$6,432,000 or 76.3% from approximately HK\$8,434,000 for the year ended 31 December 2018 to approximately HK\$14,866,000 for the year ended 31 December 2019, which was primarily due to the increase in depreciation; additional rent and rates arising from the leases of new offices in Hong Kong and the PRC; increase in corporate expenses with the listing status while such corporate expenses only incurred in the fourth quarter of 2018 as the shares of the Company were listed on GEM in October 2018; and increase in advertising expenses incurred for third party recruitment websites for the provision of recruitment services and also the software maintenance expenses attributable to the expansion of our business team in Hong Kong.

Finance costs

Finance costs represented the interest on lease liability and a bank loan, which increased by approximately HK\$21,000 or 3.2% from approximately HK\$663,000 for the year ended 31 December 2018 to approximately HK\$684,000 for the year ended 31 December 2019. The increase was due to the recognition of an interest expense on lease liability of approximately HK\$254,000 under the new accounting standard for leases. The bank loan has been fully settled in August 2019 and the related finance cost amounted to approximately HK\$430,000 and approximately HK\$663,000 for the year ended 31 December 2019 and 2018 respectively.

Income tax expenses

Income tax expense decreased by approximately HK\$1,205,000 or 76.5%, from approximately HK\$1,576,000 for the year ended 31 December 2018 to approximately HK\$371,000 for the year ended 31 December 2019. The decrease was primarily attributable to the decrease in profit before taxation (excluding the effect of non-recurring listing expenses).

Profit (loss) and total comprehensive income (expense) for the year

Profit for the year ended 31 December 2019 and loss for the year ended 31 December 2018 amounted to approximately HK\$1,676,000 and HK\$4,904,000 respectively. If the non-recurring listing expenses are excluded, the Group would have recorded a profit for the year ended 31 December 2018 of approximately HK\$8,083,000 as compared to approximately HK\$1,676,000 for the year ended 31 December 2019, representing a decrease of approximately HK\$6,407,000 or 79.3%. It was mainly attributable to the increased number of the internal staff and the expenses incurred for the business expansion in Hong Kong and the PRC.

Management Discussion and Analysis

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

On 12 September 2018 and 21 September 2018, the Company declared dividend for the amounts of HK\$18,000,000 and HK\$4,000,000 respectively to its then shareholders, which has been paid during the year ended 31 December 2018.

On 13 April 2018, KOS International Limited, an indirect wholly-owned subsidiary of the Company declared dividends in the amount of HK\$5,081,000, which has been paid to its shareholders on the same date.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group financed its operations primarily with the cash generated from its operations. As at 31 December 2019, the Group had bank balances and cash of approximately HK\$29,938,000 (2018: approximately HK\$27,800,000). Most of the bank balances and cash were placed with banks in Hong Kong. 92.3% (2018: 98.7%) of the Group's bank balances and cash was denominated in Hong Kong dollars, whereas 7.7% (2018: 1.3%) was denominated in Renminbi, MOP and US dollars. The current ratio, calculated by dividing current assets by current liabilities, as at 31 December 2019 was approximately 5 times (2018: approximately 3.5 times).

The gearing ratio as at 31 December 2019 was 9.5% (2018: 19.0%). The gearing ratio was calculated by dividing the bank borrowing and lease liabilities by total equity multiplied by 100%. With available bank balances and cash, the Directors are of the view that the Group has sufficient liquidity to satisfy the funding requirements.

FOREIGN EXCHANGE EXPOSURE

Most of the revenue-generating operations of the Group were denominated in Hong Kong dollars. There was no significant exposure to foreign exchange rate fluctuations. As such, no hedging or other arrangements was made by the Group during the year ended 31 December 2019 and 2018.

SHARE STRUCTURE

There has been no change in the Company's capital structure during the year ended 31 December 2019. The capital of the Company comprises only ordinary shares.

As at 31 December 2019, the total number of issued ordinary shares of the Company was 800,000,000 of HK\$0.01 each.

TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2019, the Group did not have any significant investments. There was no plan for any material investments or other additions of capital assets as at 31 December 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the Group did not have any charges on the Group's assets. As at 31 December 2018, bank deposit of HK\$5,000,000 was pledged to secure the bank borrowing of the Group, which has been fully settled in 2019.

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 67 (2018: 45) internal staff. The staff costs, including Directors' emoluments, of the Group amounted to approximately HK\$63,499,000 for the year ended 31 December 2019 (2018: approximately HK\$47,714,000).

The Group's employees are remunerated in accordance with their performance, qualification, work experience and prevailing industry practices. In addition to a basic salary, commission-based bonuses are offered to employees whose sales figures exceed a certain level to attract and retain eligible employees to contribute to the Group. Share options and discretionary bonus are also available to the Group's employees at the discretion of the Directors and depending upon the financial performance of the Group. Employees are provided with relevant in-house and/or external training from time to time.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

Management Discussion and Analysis

COMPARISON BETWEEN BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business strategies as stated in the Prospectus	Implementation plans as stated in the Prospectus	Actual business progress up to 31 December 2019
Expansion of our recruitment services and secondment and payroll services in Hong Kong	Expand our business team in Hong Kong by recruiting additional experienced consultants specialised in diversified functional specialisation	We have completed the expansion of our business team in Hong Kong accordingly
	Expand our office space by leasing and renovating new office premises in Hong Kong	We have maintained our office premises in Hong Kong
Establishment of our presence in the PRC recruitment services market	Establish our business team specialised in recruitment services in the PRC by recruiting additional consultants	We have completed the expansion of our business team in the PRC accordingly
	Lease a new office space in the PRC	We have maintained our office in the PRC
	Promote our brand awareness in the PRC through networks of our consultants	We have carried out the promotion accordingly
Development of marketing capability and conducting more marketing activities to promote our brand	Recruit experienced marketing personnel	We have carried out the recruitment accordingly
	Engage in advertising activities to promote our brand	We have carried out the advertising activities accordingly
	Participate in events and roadshows to connect with potential candidates and clients	We have participated accordingly

Management Discussion and Analysis

Business strategies as stated in the Prospectus

Enhancement of our IT system

Implementation plans as stated in the Prospectus

Develop additional workflows for our different services segments

Upgrade the website of our Group

Procure a new business intelligence system to facilitate decision-making process of our management

Automate our work process to support our business operation

Actual business progress up to 31 December 2019

We have started such development and it is yet to complete as at 31 December 2019

We have started such upgrade and it is yet to complete as at 31 December 2019

We have completed the set phases as at 31 December 2019

We have started such automation process and it is yet to complete as at 31 December 2019

Management Discussion and Analysis

USE OF PROCEEDS FROM SHARE OFFER

The net proceeds from the Share Offer were approximately HK\$31.0 million, which was based on the placing price of HK\$0.3 per share and after deducting the underwriting commission and other related expenses. After the Listing, these proceeds were and will be used for the purposes in accordance with the future plans as set out in the Prospectus. The Group had utilised approximately HK\$20,179,000 of the net proceeds as at 31 December 2019. The unutilised portion of approximately HK\$10,806,000 is deposited in a licensed bank in Hong Kong.

During the period from the date of Listing till 31 December 2019, the net proceeds had been utilised as follows:

	Net proceeds <i>HK\$'000</i>	Utilised amount <i>HK\$'000</i>	Unutilised amount <i>HK\$'000</i>
Expansion of our recruitment services and secondment and payroll services in Hong Kong	14,222	12,615	1,607
Establishment of our presence in the PRC recruitment services market	7,994	4,929	3,065
Development of marketing capability and conducting more marketing activities to promote our brand	3,408	609	2,799
Enhancement of our IT system	3,068	1,226	1,842
General working capital	2,293	800	1,493
	30,985	20,179	10,806

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chan Ka Kin Kevin (“Mr. Kevin Chan”), aged 42, joined the Group in April 2009 and is the executive Director and chairman of the Company. He was appointed as the Director on 19 December 2017 and was re-designated as an executive Director on 31 January 2018. Mr. Kevin Chan is responsible for the overall strategic planning and business development of the Group. Mr. Kevin Chan is also a director of all subsidiaries of the Group.

Mr. Kevin Chan has approximately ten years of experience in the human resources services industry. Mr. Kevin Chan has been an independent director of KLV Holdings Limited (stock code: 504.SI), a company listed on the Catalyst Board of The Singapore Exchange Securities Trading Limited since September 2016.

Mr. Kevin Chan is the elder brother of Mr. Chan Ka On Eddie and Mr. Jackson Chan.

Mr. Chan Ka On Eddie (“Mr. Eddie Chan”), aged 37, is the executive Director. He was appointed as the Director on 19 December 2017 and was re-designated as the executive Director on 31 January 2018. Mr. Eddie Chan is responsible for overseeing the day-to-day management and operation of the Group. Mr. Eddie Chan is also a director of all subsidiaries of the Group.

Mr. Eddie Chan has over 16 years of experience in the human resources services industry. Prior to founding the Group, Mr. Eddie Chan worked at Wing Hang Credit Limited from January 2003 to August 2004 as customer service representative. In August 2004, Mr. Eddie Chan worked as business development executive in Jobs DB Hong Kong Limited, and was promoted in March 2006 to senior business development executive. From December 2006 to June 2008, he was business development manager in Monster.com Asia Pacific Limited. From June 2008 to December 2008, he worked at Robert Walters (Hong Kong) Limited and his last position was consultant of its commerce accounting division.

Mr. Eddie Chan is the younger brother of Mr. Kevin Chan and the elder brother of Mr. Jackson Chan.

Mr. Chan Ka Shing Jackson (“Mr. Jackson Chan”), aged 37, is the executive Director. He was appointed as the Director on 19 December 2017 and was re-designated as the executive Director on 31 January 2018. Mr. Jackson Chan is responsible for overseeing marketing and execution of strategic and operational planning of the Group. Mr. Jackson Chan is also a director of all subsidiaries of the Group.

Mr. Jackson Chan has over 17 years of experience in the human resources services industry. Prior to joining the Group, Mr. Jackson Chan worked at Wing Hang Credit Limited from June 2002 to July 2004 and his last position was senior clerk in the special products department. In July 2004, Mr. Jackson Chan worked as business development executive in Jobs DB Hong Kong Limited, and was promoted in February 2006 to senior business development executive. In April 2006, he was business development manager in Monster.com Asia Pacific Limited and in March 2008 he was senior business development manager at Cliftons. From August

Biographical Details of Directors and Senior Management

2008 to March 2009, he worked at Michael Page International (Hong Kong) Limited as recruitment consultant. Mr. Jackson Chan obtained a professional diploma in marketing jointly awarded by The Chinese University of Hong Kong and Hong Kong Institute of Marketing in October 2005.

Mr. Jackson Chan is the younger brother of Mr. Kevin Chan and Mr. Eddie Chan.

Independent non-executive Directors

Mr. Tong Kam Piu (“Mr. Tong”), aged 67, was appointed as an independent non-executive Director on 13 September 2018. He is the chairman of remuneration committee of the Company and a member of audit committee and nomination committee of the Company.

Mr. Tong has over 26 years of experience in the human resources services industry. Prior to joining the Group, from April 2000 to June 2017, Mr. Tong had been working at Hutchison Ports Management Limited and his last position was group human resources director. From January 1979 to October 1982, Mr. Tong had been working at Sun Hung Kai Securities Limited (currently known as Everbright Sun Hung Kai Securities Company Limited), and he was first employed as personnel officer and was then promoted to the position of assistant personnel manager in January 1982, and after the reorganisation of the personnel department as a result of the set-up of Sun Hung Kai Bank Limited, Mr. Tong had been acting as personnel manager for Sun Hung Kai Securities Limited. From October 1982 to September 1985, he was an executive selection consultant at the management consultancy firm of Peat Marwick Mitchell & Co. (currently known as KPMG).

Mr. Tong graduated from University of Manchester with a degree of bachelor of science in July 1975. He was later awarded a council’s diploma in management studies from the Council for National Academic Awards in November 1978, and a certificate in personnel management from University of Hong Kong in June 1980.

Mr. Poon Kai Kin (“Mr. Poon”), aged 57, was appointed as an independent non-executive Director on 13 September 2018. He is the chairman of audit committee of the Company and a member of remuneration committee and nomination committee of the Company.

Mr. Poon has approximately 20 years of experience in the human resources services and finance industries. Prior to joining the Group, he worked at Ernst & Whinney (currently known as Ernst & Young) from October 1987 to August 1992 and his last position was deputy manager. Mr. Poon was co-founder and director of Jobs DB Hong Kong Limited from June 1998 to June 2006. Mr. Poon is a member of Hong Kong Institute of Certified Public Accountants and has been a member of Australia Society of Accountants (currently known as CPA Australia) since February 1987.

Mr. Poon graduated from University of New England with a degree of bachelor of financial administration in April 1986 and later obtained a degree of master of commerce awarded by University of New South Wales in October 1987.

Biographical Details of Directors and Senior Management

Mr. Wang Ho Pang (“Mr. Wang”), aged 47, was appointed as an independent non-executive Director on 13 September 2018. He is the chairman of nomination committee of the Company and a member of audit committee and remuneration committee of the Company.

Mr. Wang has over 17 years of experience in the legal services industry. Prior to joining the Group, Mr. Wang was an associate in Deacons from July 2001 to December 2004. From January 2005 to September 2007, Mr. Wang worked at Federal Insurance Company and his last position was regional director and officer and casualty claims specialist. From September 2007 to January 2012, Mr. Wang was third party claims manager in Liberty International Underwriters. From April 2014 to January 2017, Mr. Wang worked at Aon Hong Kong Limited and his last position was claims director. Mr. Wang has been a chief executive officer of Maxima Strategy Company Limited from February 2018 to March 2019, a private company which provides art consultancy and entertainment services. Since May 2019, Mr. Wang was appointed as director of DrD Novel Vaccines Limited, a company being engaged in biogeological research and vaccine development.

Mr. Wang graduated from University of Hong Kong with a degree of bachelor of laws in November 1995 and obtained a postgraduate certificate in laws from University of Hong Kong in June 1996. Mr. Wang obtained a degree of master of laws awarded by The London School of Economics and Political Science of the University of London in November 1997. Mr. Wang was admitted as a solicitor in Hong Kong in December 1999 and a solicitor in England and Wales in March 2000.

SENIOR MANAGEMENT

Ms. Yeung Shek Shek Louisa (“Ms. Yeung”), aged 54, joined the Group in April 2017 as chief executive officer of the Group. Ms. Yeung is responsible for overseeing the daily operation, training and development of our employees and formulating the overall strategies and planning of the Group with the Board.

Ms. Yeung has approximately 23 years of experience in the human resources services industry. Prior to joining the Group, from July 1988 to April 1997, she worked at Price Waterhouse (currently known as PricewaterhouseCoopers) and her last position was tax manager. From April 1997 to March 2017, she worked at Michael Page International (Hong Kong) Limited and she had been director of finance in Hong Kong and South China region between December 2006 and June 2011 and managing director of Hong Kong and South China region between July 2011 and August 2013, and her last position was managing director in Page Executive Greater China division since 2013, where she was responsible for building the Page Executive brand and establishing the recruitment business operations in Shenzhen and Guangzhou in China, and the company had 10 offices in China when she left.

Ms. Yeung was awarded professional diploma (with distinction) in company secretaryship and administration by Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1988. She became an associate of The Institute of Chartered Secretaries and Administrators in August 1991. Ms. Yeung became a fellow of The Association of Chartered Certified Accountants in March 1997, a fellow of Hong Kong Institute of Certified Public Accountants in February 2001 and a fellow of CPA Australia in October 2008.

Biographical Details of Directors and Senior Management

Mr. Choi Ho Yan (“Mr. Choi”), aged 43, joined the Group in January 2018 as chief financial officer of the Group. Mr. Choi is responsible for overseeing and managing overall corporate and financial matters of the Group.

Mr. Choi has over 21 years of experience in auditing, accounting, corporate finance and investor relations. Prior to joining our Group, Mr. Choi worked at Ernst and Young from September 1998 to August 2004, and his last position was senior accountant. From September 2004 to January 2010, Mr. Choi was chief financial officer and joint company secretary of China Milk Products Group Limited (stock code SGX: G86), a company previously listed on the Main Board of The Singapore Exchange Securities Trading Limited. From July 2010 to August 2015, Mr. Choi was the executive director of Mobile Telecom Network (Holdings) Limited (stock code: 8266) (“Mobile Telecom”) (previously known as Gold Tat Group International Limited and currently known as Zhuoxin International Holdings Limited), a company listed on GEM. Mr. Choi has been an adviser of Mobile Telecom since September 2015. Mr. Choi has been an independent non-executive director of Time Watch Investments Limited (stock code: 2033), a company listed on Main Board of the Stock Exchange, since May 2013. Mr. Choi has also been appointed as an independent non-executive director of Long Well International Holdings Limited (stock code: 850), a company listed on Main Board of the Stock Exchange, since 5 March 2020.

Mrs. Williams Au, Chui Man Connie (“Mrs. Williams Au”), aged 48, joined the Group in April 2014 as associate director of KOS International Limited and has become managing director of KOS International Limited since January 2015. Mrs. Williams Au is responsible for overseeing the business operation of the Group in Hong Kong.

Mrs. Williams Au has approximately 14 years of experience in the human resources services industry. Prior to joining the Group, from April 2000 to May 2001, Mrs. Williams Au was marketing manager of GoHome Company Limited, where she was responsible for marketing, business development and project management. From September 2001 to March 2002, she was product manager of Lamsoon Food Supply Co., Ltd., where she was responsible for the formulation and implementation of brand strategy. From July 2003 to February 2006, she was group marketing manager of RBT International Limited, where she was responsible for supervising three regional marketing teams in Hong Kong, Guangzhou and Shanghai. From November 2006 to March 2014, Mrs. Williams Au worked at Ambition Group Hong Kong Limited, and her last position was associate director in sales and marketing.

Mrs. Williams Au graduated from Lingnan College Hong Kong (currently known as Lingnan University) with a degree of bachelor of social sciences in November 1994. She obtained a diploma in marketing from Hong Kong Institute of Marketing in May 2000 and a postgraduate diploma in marketing by The Chartered Institute of Marketing in June 2000.

Report of the Directors

The Directors hereby submit their report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in providing recruitment services and secondment and payroll services in Hong Kong, Macau and the PRC.

Particulars of the subsidiaries of the Company as at 31 December 2019 are set out in note 27 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business are provided in the section headed "Chairman's Statement" on pages 4 to 5 and "Management Discussion and Analysis" on pages 6 to 16 of this report.

Risks and uncertainties

The Group believes that there are risks and uncertainties involved in its operations. Some of the relatively material risks include (i) the Group's success depends on key management personnel and experienced consultants; (ii) the nature of business of the Group is labour intensive, if we experience any shortage of labour or material increase in staff costs, the Group's business operation and financial results would be adversely affected; (iii) a significant portion of Group's revenue was generated from the largest client during the year ended 31 December 2019 and any significant decrease in the demand from such client for the Group's services may materially and adversely affect the Group's financial conditions and operating results; (iv) the software, computer and network systems of the Group may not perform as anticipated and are vulnerable to damage and interruption, which may lead to leakage of personal data of individual candidates; (v) the Group may not be able to implement all or any of the business plans successfully; and (vi) there may be risks in exploring the PRC market.

In addition, various financial risks have been disclosed in note 22 to the consolidated financial statements.

An analysis using financial key performance indicators

An analysis of the Group's performance during the year ended 31 December 2019 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 6 to 16 of this report.

Report of the Directors

Environmental protection

The Group recognises its responsibility to protect the environment from its business activities. The Group has endeavored to comply with laws and regulations regarding environmental protection and encourages environmental protection and promotes awareness towards environmental protections to the employees.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. The Group has on-going review the new enacted laws and regulations affecting the operations of the Group. During the year ended 31 December 2019, the Group is not aware of any material non-compliance with the laws and regulations that have significant impact on the business of Group.

Relationships with employees and customers

The Group understands that employees are valuable assets. The Group ensures all employees is reasonably remunerated and regularly reviews the remuneration package of employees and other benefits. The Group also understands that it is important to maintain good relationship with its customers to fulfil its short and long-term goals.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 47 of this report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

RESERVES

Details of movements in the reserves of the Group and of the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity and note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the reserves of the Company available for distribution to shareholders under the Companies Law of the Cayman Islands amounted to approximately HK\$2,547,000 (2018: HK\$1,327,000).

Report of the Directors

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed “Share Options Scheme” of this Directors’ Report, no equity-linked agreement was entered into by the Company during the year or subsisted at the end of the year.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2019 are set out in note 20 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 104 of this report. This summary does not form part of the audited consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2019.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 13 September 2018 (the “Share Option Scheme”).

No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since the adoption of the Share Option Scheme and there was no share option outstanding as at 31 December 2019.

Report of the Directors

The following is a summary of the principal terms of the Share Option Scheme:

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company.

(b) Participants

The participants of the Share Option Scheme include full time or part time employees of the Group (including any Directors, whether executive or non-executive and whether independent or not, of the Company or any subsidiary) and any suppliers, clients, consultants, agents, advisers, franchisees, joint venture partners and related entities to the Group. The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants contribution to the development and growth of the Group. In order for a person to satisfy the Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as the Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

(c) Maximum number of Shares available for issue

As at the date of this report, the maximum number of Shares available for issue was 80,000,000 representing 10% of the Shares in issue.

(d) Maximum entitlement of each participant and connected persons

The total number of Shares issued and to be issued upon exercise of all options granted to each participant (including both exercised and outstanding options) in any twelve (12)-month period up to the date of grant shall not exceed 1% of the Shares in issue.

(e) Acceptance of options

An offer shall be accepted by the participant concerned within 28 days from the date of the offer of grant of the option. A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

(f) Time of exercise of option

The period under which an option may be exercised shall be such period as the Board may in its absolute discretion determine at the time of making an offer for the grant of an option, but in any event no later than 10 years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted) but subject to the early termination of the Share Option Scheme.

Report of the Directors

(g) Subscription price of Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme, subject to any adjustments made in accordance with the Share Option Scheme, shall be such price as the Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the date of grant of the option (which must be a Business Day); (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a Business Day); and (iii) the nominal value of the Shares.

(h) Duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Chan Ka Kin Kevin (*Chairman*)

Mr. Chan Ka On Eddie

Mr. Chan Ka Shing Jackson

Independent Non-executive Directors

Mr. Tong Kam Piu

Mr. Poon Kai Kin

Mr. Wang Ho Pang

According to Article 84(1) of the articles of association of the Company (the "Articles of Association"), at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Accordingly, Mr. Chan Ka Shing Jackson and Mr. Wang Ho Pang will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election as Directors.

Report of the Directors

Emoluments of the Directors and the five highest paid individuals

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements.

The emoluments of the Directors are subject to review by the remuneration committee of the Company. Their emoluments are determined with reference to their roles and responsibilities in the Group and the prevailing market conditions.

The Company has adopted share option scheme as an incentive to Directors and eligible employees, details of the share option scheme are set out in the Share Options Scheme section above and in note 26 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 12 October 2018 and continuing thereafter until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing 12 October 2018.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management of the Company at the date of this report are set out in the Biographical Details of Directors and Senior Management section on pages 17 to 20 of this report.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

There were no transactions, arrangements or contracts of significance in relation to the Group's business to which the company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2019 was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

Report of the Directors

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

As at 31 December 2019, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of Directors	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the issued share capital
Mr. Chan Ka Kin Kevin ("Mr. Kevin Chan")	Interest in a controlled corporation and interest held jointly with another person (Note 1)	600,000,000	75%
Mr. Chan Ka On Eddie ("Mr. Eddie Chan")	Interest in a controlled corporation and interest held jointly with another person (Note 1)	600,000,000	75%
Mr. Chan Ka Shing Jackson ("Mr. Jackson Chan")	Interest in a controlled corporation and interest held jointly with another person (Note 1)	600,000,000	75%

Note:

1. Among such 600,000,000 Shares, 450,000,000 Shares are registered in the name of KJE Limited and 150,000,000 Shares are registered in the name of Caiden Holdings Limited. KJE Limited was owned as to approximately 33.33% by Mr. Kevin Chan, 33.33% by Mr. Eddie Chan and 33.33% by Mr. Jackson Chan and accordingly each of them is deemed to be interested in all the Shares held by KJE Limited under the SFO. Caiden Holdings Limited is wholly owned by Mr. Chow Ka Wai Raymond ("Mr. Raymond Chow") and Mr. Raymond Chow is therefore deemed to be interested in all the Shares held by Caiden Holdings Limited under the SFO. On 18 January 2018, Mr. Kevin Chan, Mr. Eddie Chan, Mr. Jackson Chan and Mr. Raymond Chow executed a deed of concert parties arrangement and they have been and will be acting in concert pursuant to the deed. Therefore, each of Mr. Kevin Chan, Mr. Eddie Chan and Mr. Jackson Chan is deemed to be interested in all the Shares held by KJE Limited and Caiden Holdings Limited under the SFO.

Report of the Directors

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company has or was deemed to have any interests or short positions in any shares, debentures or underlying shares of the Company and 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 were 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as at 31 December 2019, the following person (other than the Directors or chief executive of the Company the interests of which were disclosed above) or corporation had interest or short position in the shares of the Company which were required to be entered in the register of the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of substantial shareholders	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the issued share capital
KJE Limited	Beneficial owner and interest held jointly with another person (<i>Note 1</i>)	600,000,000	75%
Caiden Holdings Limited	Beneficial owner and interest held jointly with another person (<i>Note 1</i>)	600,000,000	75%
Mr. Raymond Chow	Interest in a controlled corporation and interest held jointly with another person (<i>Note 1</i>)	600,000,000	75%

Note:

1. Among such 600,000,000 Shares, 450,000,000 Shares are registered in the name of KJE Limited and 150,000,000 Shares are registered in the name of Caiden Holdings Limited. KJE Limited was owned as to approximately 33.33% by Mr. Kevin Chan, 33.33% by Mr. Eddie Chan and 33.33% by Mr. Jackson Chan and accordingly each of them is deemed to be interested in all the Shares held by KJE Limited under the SFO. Caiden Holdings Limited is wholly owned by Mr. Raymond Chow and Mr. Raymond Chow is therefore deemed to be interested in all the Shares held by Caiden Holdings Limited under the SFO. On 18 January 2018, Mr. Kevin Chan, Mr. Eddie Chan, Mr. Jackson Chan and Mr. Raymond Chow executed a deed of concert parties arrangement and they have been and will be acting in concert pursuant to the deed. Therefore, Mr. Raymond Chow is deemed to be interested in all the Shares held by KJE Limited and Caiden Holdings Limited under the SFO.

Report of the Directors

Save as disclosed above, the Directors and the chief executive of the Company were not aware of any person (other than the Directors or chief executive of the Company the interests of which were disclosed above) who has an interest or short position in the securities of the Company that were required to be entered in the register of the Company pursuant to section 336 of the SFO as at 31 December 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2019, the largest customer of the Group accounted for approximately 32.9% (2018: 40.1%) of the total revenue of the Group while the five largest customers of the Group in aggregate accounted for approximately 46.3% (2018: 54.5%) of the total revenue of the Group.

Due to the nature of the business of the Group, there is no major suppliers during the year (2018: Nil).

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares at any time during the year ended 31 December 2019 and to the date of this report.

PERMITTED INDEMNITY

In accordance with the articles of association of the Company, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of them.

The Company has also taken out and maintained Directors' and officers' liability insurance for the purpose of indemnifying for losses in respect of potential legal actions against the Directors and other officers of the Company.

Report of the Directors

RETIREMENT BENEFIT COSTS

Other than the payments to the Mandatory Provident Fund Scheme in Hong Kong, the Social Security Fund Contribution in Macau and the defined contribution retirement benefit schemes in the PRC, the Group has not operated any other retirement benefit schemes for its employees. Particulars of the retirement benefit schemes are set out in note 25 to the consolidated financial statements.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 32 to 41 of this report.

COMPETING INTERESTS

During the year, none of the Directors or the controlling shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

A deed of non-competition (“Deed of Non-competition”) dated 19 September 2018 was executed in favour of the Company by Mr. Chan Ka Kin Kevin, Mr. Chan Ka On Eddie, Mr. Chan Ka Shing Jackson and Mr. Chow Ka Wai Raymond (collectively the “Controlling Shareholders”) regarding certain non-competition undertakings. The details of the Deed of Non-competition have been disclosed under the section headed “Relationship with Controlling Shareholders” in the prospectus of the Company dated 28 September 2018.

Each of the Controlling Shareholders has given an annual declaration to the Company confirming that he has complied with the non-compete undertakings to the Company under the Deed of Non-competition. The independent non-executive Directors have reviewed the compliance with the Deed of Non-competition and are satisfied that the Controlling Shareholders have complied with the provisions of the Deed of Non-Competition during the year ended 31 December 2019.

INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2019, as notified by the Company’s compliance adviser, HeungKong Capital Limited (the “Compliance Adviser”), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor any of its directors, employees or close associated had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Report of the Directors

CONNECTED TRANSACTIONS

The “related party transactions” as disclosed in note 24 to the consolidated financial statements for the year ended 31 December 2019 do not constitute a connected transaction or a continuing connected transaction as defined in Chapter 20 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the year ended 31 December 2019 are set out in note 30 to the consolidated financial statements.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offers themselves for re-appointment. A resolution for re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Chan Ka Kin Kevin

Chairman and Executive Director

Hong Kong, 23 March 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices enhancing greater transparency and quality of disclosure as well as more effective internal control.

Throughout the year ended 31 December 2019, the Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) and Corporate Governance Report (the “CG Report”) as set out in Appendix 15 to the GEM Listing Rules.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors’ securities transactions of the Company. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2019.

The Company’s code of conduct also applies to all employees who are likely to be in the possession of inside information of the Company. No incident of non-compliance of the Company’s code of conduct by the employees was noted by the Company.

BOARD OF DIRECTORS

The board of Directors (the “Board”) of the Company currently comprises a total of six Directors, with three executive Directors namely Mr. Chan Ka Kin Kevin (as Chairman), Mr. Chan Ka On Eddie, and Mr. Chan Ka Shing Jackson and three independent non-executive Directors namely Mr. Tong Kam Piu, Mr. Poon Kai Kin and Mr. Wang Ho Pang. A list containing the names of the Directors and their roles and functions is published on the Company’s website and the GEM website at www.hkgem.com. To the best knowledge of the Company, other than Mr. Chan Ka Kin Kevin, Mr. Chan Ka On Eddie and Mr. Chan Ka Shing Jackson are brothers, there is no financial, business, family or other material or relevant relationship between the members of the Board. Biographical details of the Directors are set out in “Biographical Details of Directors and Senior Management” on pages 17 to 20 of this report.

The Company complies at all times during the year ended 31 December 2019 with the requirements under the Rules 5.05(1), 5.05(2) and 5.05A of the GEM Listing Rules respectively relating to the appointment of at least three independent non-executive Directors and one of which should have appropriate professional qualifications or accounting or related financial management expertise and the independent non-executive Directors represent at least one-third of the Board.

Corporate Governance Report

The Board is collectively responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group. Key and important decisions shall be fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the notice of board meeting. Matters requiring the Board's approval include review of overall policies, corporate plan of the Company, investment plans which would involve significant risks for the Company, major organisation changes, significant sales, transfers, or other dispositions of property or assets, approval of the annual report, interim report, quarterly report and approval of interim dividend and recommendation of the final dividend, other matters relating to the Company's business which in the judgment of the executive Directors are of such significance as to merit the Board's consideration.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules, and the nomination committee of the Company has assessed the independence of each of the independent non-executive Directors and the Company considers that all independent non-executive Directors meet the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with terms of the guidelines.

Four regular Board meetings and one general meeting were held during the year ended 31 December 2019. The chairman of the Board met with the independent non-executive Directors without the presence of executive Directors during the year.

Here below is the attendance record of Directors at the meetings held during the year ended 31 December 2019:

	2019 AGM	Number of meetings attended/held			
		Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Chan Ka Kin Kevin	1/1	4/4	N/A	N/A	N/A
Mr. Chan Ka On Eddie	1/1	4/4	N/A	N/A	N/A
Mr. Chan Ka Shing Jackson	1/1	4/4	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Tong Kam Piu	1/1	4/4	6/6	2/2	1/1
Mr. Poon Kai Kin	1/1	4/4	6/6	2/2	1/1
Mr. Wang Ho Pang	1/1	4/4	6/6	2/2	1/1

The Company's last annual general meeting was held on 10 May 2019. The chairman of the Board as well as the chairman of the Audit Committee, Remuneration Committee and Nomination Committee attended the annual general meeting.

Corporate Governance Report

DIRECTORS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance cover for the Directors' and Officers' liabilities in respect of potential legal actions against the Directors and officers of the Company.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Development and training of Directors is an ongoing process so that they can perform their duties appropriately. Update on changes to the GEM Listing Rules are provided by the company secretary of the Company where Directors are informed of the impact of such developments or changes to the Company and the external auditors has also provided briefing on changes or amendments to accounting standards at the audit committee meeting.

The Company will from time to time provide briefings to all Directors to develop and refresh their duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense, and they have been requested to provide the Company with their training records.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer of the Company are held separately by Mr. Chan Ka Kin Kevin and Ms. Yeung Shek Shek Louisa respectively.

The chairman is responsible for management of the Board and strategic planning of the Group, ensures that the Board works effectively and discharges its responsibilities, encourages all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interests of the Group. The role of chief executive officer is responsible to undertake the day-to-day management of the Group's business.

The separation of duties of the chairman and chief executive officer of the Company ensures a clear distinction between the chairman's responsibility for running the Board and the chief executive officer's responsibility for running the Group's business.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach of which the Board could achieve a higher level of diversity. The Company recognises the benefits of having a diversified Board to enhance the quality of its performance. In summary, the board diversity policy sets out that when considering the nomination and appointment of a director, with the assistance of the nomination committee, the Board would consider a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and qualification, skills and length of service of the prospective candidate. The ultimate decision of the appointment will be based on merit and the contribution which the prospective

Corporate Governance Report

candidate would bring to the Board. All Board appointments will be considered against objective criteria, having due regard to the benefits of diversity on the Board in order to best serve the shareholders and other stakeholders of the Company going forward.

As at the date of this report, the Board comprises six members, amongst them, three are independent non-executive Directors. All the executive Directors possess extensive experience in human resources services industry. The independent non-executive Directors possess extensive knowledge and experience in human resources services, legal services, finance as well as accounting and auditing. Furthermore, the Board has a wide range of age, ranging from 37 years old to 67 years old. Taking into account the existing needs of the Company, the combination of the Board would bring about the necessary balance of skills and experience appropriate for the requirements of the business development of the Company, despite the lack of gender diversity.

The nomination committee will monitor the implementation of the board diversity policy from time to time to ensure its continual effectiveness.

BOARD COMMITTEES

The Board has established three committees, namely the nomination committee (the “Nomination Committee”), the remuneration committee (the “Remuneration Committee”) and the audit committee (the “Audit Committee”) with defined terms of reference.

Audit Committee

The Audit Committee was established on 13 September 2018 in compliance with Rule 5.28 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code and the CG Report as set out in Appendix 15 to the GEM Listing Rules. It currently comprises three independent non-executive Directors, namely Mr. Tong Kam Piu, Mr. Poon Kai Kin and Mr. Wang Ho Pang. Mr. Poon Kai Kin is the chairman of the Audit Committee.

The primary duties of the Audit Committee include making recommendations to the Board on the appointment and approval of external auditors, reviewing and supervising the financial statements and material advice in respect of financial reporting, overseeing internal control procedures and corporate governance of the Company, supervising internal control and risk management systems of the Company and monitoring continuing connected transactions (if any).

During the year ended 31 December 2019, the Audit Committee held six meetings and three meetings were attended by the Company’s external auditor. The attendance of each of the members of the Audit Committee was set out on page 33 of this report.

Corporate Governance Report

The following is a summary of work performed by the Audit Committee during the year ended 31 December 2019:

- (i) Discussed with the external auditor the audit planning work (including the nature and scope of the audit and reporting obligations) in respect of the audit of the 2018 and 2019 annual results of the Group;
- (ii) Reviewed and approved the audit fees for the year ended 31 December 2018 and 2019;
- (iii) Reviewed the annual report and the annual results announcement for the year ended 31 December 2018, with a recommendation to the Board for approval;
- (iv) Reviewed the external auditor's independence, its report and the management letter in relation to the audit of the Group for the year ended 31 December 2018, and recommended to the Board on the re-appointment of Deloitte Touche Tohmatsu as the external auditor of the Company at the annual general meeting of the Company;
- (v) Reviewed the effectiveness of the risk management and internal control systems of the Group;
- (vi) Reviewed the quarterly report and the quarterly results announcement for the three months ended 31 March 2019, with a recommendation to the Board for approval;
- (vii) Reviewed the interim report and the interim results announcement for the six months ended 30 June 2019, with a recommendation to the Board for approval; and
- (viii) Reviewed the quarterly report and the quarterly results announcement for the three months ended 30 September 2019, with a recommendation to the Board for approval.

Remuneration Committee

The Remuneration Committee was established on 13 September 2018 in compliance with Rule 5.34 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code and the CG Report as set out in Appendix 15 to the GEM Listing Rules. It currently comprises three independent non-executive Directors, namely Mr. Tong Kam Piu, Mr. Poon Kai Kin and Mr. Wang Ho Pang. Mr. Tong Kam Piu is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include reviewing and making recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, reviewing other remuneration-related matters, including benefits-in-kind and other compensation payable to the Directors and senior management, and reviewing performance based remunerations and establishing a formal and transparent procedure for developing policy in relation to remuneration.

Corporate Governance Report

During the year ended 31 December 2019, the Remuneration Committee held two meetings to (i) review and recommend a salary adjustment for the executive Directors to the Board and (ii) review on the policy and structure of the remuneration package of the Directors and senior management. The attendance of each of the members of the Remuneration Committee was set out on page 33 of this report.

The Remuneration Committee has adopted the model that it will review the proposal made by the management on the remuneration package of individual executive Directors and senior management and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

The remuneration of the members of the senior management of the Group excluding the Directors by band for the year ended 31 December 2019 is set out below:

Remuneration band (HK\$)	Number of individuals
Nil to HK\$1,000,000	1
HK\$1,000,001 to HK\$1,500,000	2

Details of the emoluments of the Directors for the year ended 31 December 2019 are set out in note 10 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established on 13 September 2018 with written terms of reference in compliance with the CG Code and the CG Report as set out in Appendix 15 to the GEM Listing Rules. It currently comprises three independent non-executive Directors, namely Mr. Tong Kam Piu, Mr. Poon Kai Kin and Mr. Wang Ho Pang. Mr. Wang Ho Pang is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include reviewing the structure, size, composition and diversity of the Board on a regular basis, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and making recommendations to the Board regarding the candidates to fill vacancies on the Board.

During the year ended 31 December 2019, the Nomination Committee held one meeting to review the structure, size and composition of the existing Board and assess the independence of the independent non-executive Directors. The attendance of each of the members of the Nomination Committee was set out on page 33 of this report. The Nomination Committee had recommended the re-nomination of Mr. Chan Ka Shing Jackson and Mr. Wang Ho Pang for re-election at the forthcoming annual general meeting of the Company. The Board had accepted the Nomination Committee's recommendation.

Corporate Governance Report

Nomination policy

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the shareholders of the Company for election as Directors at general meetings or appoint as Directors to fill casual vacancies. When the Nomination Committee considers it appropriate, it invites nominations of candidates from Board members or any person and makes recommendations for the Board's consideration and approval.

In assessing the suitability of a proposed candidate, the Nomination Committee would consider factors including:

- (a) reputation for integrity;
- (b) experience in human resources services industry, management, legal and financial aspects;
- (c) whether the proposed candidate is able to assist the Board in effective performance of its responsibilities;
- (d) the perspectives and skills that the proposed candidate is expected to bring to the Board;
- (e) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- (f) commitment in respect of available time and relevant interest; and
- (g) in the case of selection for independent non-executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Group. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected appropriate accounting policies, applied them consistently, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The statement by the auditors of the Company, Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report.

Corporate Governance Report

AUDITOR'S REMUNERATION

The analysis of the auditor's remuneration for the year ended 31 December 2019 is presented as follows:

Services rendered	Fees paid/payable <i>HK\$'000</i>
Audit services	1,000

RISK MANAGEMENT AND INTERNAL CONTROL

The management identified and evaluated the significant risks relevant to the Group based on their experience in the business environment. They regularly met with frontline employees and continuously monitored business performance comparing to operational plan and financial forecasts. The risk management and internal control systems are in place to cope with potential risk in different areas including liquidity, fraud and financial reporting, operational and compliance risks.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has set up the internal audit function in 2019 to carry out independence reviews of risks and internal controls. Major functions of the internal audit function include:

- (a) review of material controls on financial, operational and compliance in the key business processes of the Group's operations;
- (b) conducting special reviews on and investigations into areas of concern identified by Group's senior management executives; and
- (c) monitoring the progress of corrective actions recommended by the external auditors in their internal control reports.

The Group's internal audit function is performed by an internal auditor, who reports directly to the Audit Committee. The internal auditor plays an important part in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports directly to the Audit Committee on a regular basis.

Corporate Governance Report

For the year ended 31 December 2019, the internal auditor conducted audit review on controls and compliance with policies and procedures of the Group at both operational and corporate levels. The internal auditor has reported findings and areas for improvement to the management and the Audit Committee, which then reviewed and reported the same to the Board. The Board and Audit Committee are of the view that there are no material internal control defeats noted. The Board considered that the risk management and internal audit control system are effective and adequate.

With respect to the monitoring and disclosure of inside information, the Group has adopted a policy on disclosure of inside information with the aim to ensure that the insiders are abiding by the confidentiality requirement and are fulfilling the disclosure obligation of the inside information.

COMPANY SECRETARY

The company secretary of the Company is Ms. Chang Kam Lai. Ms. Chang Kam Lai is a fellow of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants.

During the year ended 31 December 2019, Ms. Chang Kam Lai undertook no less than 15 hours of relevant professional training.

COMPLIANCE OFFICER

Mr. Chan Ka Shing Jackson is the compliance officer of the Company. His biographical details are set out in Biographical Details of Directors and Senior Management on page 17 of this report.

SHAREHOLDERS' RIGHTS

Procedures to convene an extraordinary general meeting

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may request the Board to convene an extraordinary general meeting pursuant to the article 58 of the articles of association of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionist(s) and deposited at the principal place of business of the Company in Hong Kong (presently at Suite 610, 6th Floor, Ocean Centre, No. 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong) for the attention of the company secretary of the Company.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may convene a meeting, but such meeting shall be held within two months after the deposit of requisition.

Corporate Governance Report

Procedures by which enquiries may be put to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Other shareholders' enquiries can be directed in writing with contact details (including name, address, telephone number and email address) to the principal place of business of the Company in Hong Kong, presently at Suite 610, 6th Floor, Ocean Centre, No. 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong or by email to info@kos-intl.com.

Procedures for putting forward proposals at a general meeting

Proposals shall be directed in writing with contact details (including name, address, telephone number and email address) to the Company's principal place of business in Hong Kong.

The Board will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with the necessary procedures.

DIVIDEND POLICY

The Company seeks to maintain a balance between meeting the shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow shareholders to participate in the Company's profit and for the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Company would consider various factors including the Company and the Group's actual and expected financial performance, the Group's current and future operations, the level of the Group's debts to equity ratio, liquidity position and capital requirement of the Group, general market conditions and any other factors that the Board deems appropriate.

INVESTORS RELATIONS

The Company's website offers communication channel between the Company and its shareholders and investors. Apart from disclosure of all necessary information to the shareholders in compliance with the GEM Listing Rules, news update of Company's business development and operation are available on the Company's website.

CONSTITUTIONAL DOCUMENTS

Throughout the year ended 31 December 2019 and up to the date of this report, there were no changes to the memorandum and articles of association of the Company. The memorandum and articles of association of the Company is available on the website of the Company and the Stock Exchange.

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF KOS INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of KOS International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 47 to 103, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) 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.

Independent Auditor's Report

TO THE SHAREHOLDERS OF KOS INTERNATIONAL HOLDINGS LIMITED – *continued*
(incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS – *continued*

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of accounts receivables</i></p> <p>We identified the impairment assessment of accounts receivables as a key audit matter due to the significance of accounts receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's accounts receivables at the end of the reporting period.</p> <p>As disclosed in note 15 to the consolidated financial statements, as at 31 December 2019, the Group's net accounts receivables amounting to HK\$9,947,000 and out of these account receivables of HK\$3,176,000 and HK\$498,000 were past due and past due over 90 days, respectively.</p> <p>As disclosed in note 5 and note 15 to the consolidated financial statements, accounts receivables are assessed for ECL individually. The Group assessed credit risk of its individual customers with reference to external credit rating, the Group's observed default rates and supportable forward-looking information that is available to the directors of the Company without undue cost or effort, and are updated if considered to be required.</p>	<p>Our procedures in relation to the impairment assessment of accounts receivables included:</p> <ul style="list-style-type: none">• Obtaining an understanding on the key controls over credit risk assessment and how management estimates the loss allowance for accounts receivables;• Assessing the appropriateness of the loss allowance calculation methodology used by the management;• Testing the integrity of information used by management in assessing the credit risk of individual customers, on a sample basis, by checking the external credit rating of the customers to independence source and comparing historical default rates to the actual losses recorded during the current financial year; and• Challenging management's basis and judgement in concluding accounts receivables which were past due over 90 days or more, and were not considered as in default, on a sample basis, with reference to the external credit rating, historical default rates and forward-looking information.

Independent Auditor's Report

TO THE SHAREHOLDERS OF KOS INTERNATIONAL HOLDINGS LIMITED – *continued*
(*incorporated in the Cayman Islands with limited liability*)

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

Independent Auditor's Report

TO THE SHAREHOLDERS OF KOS INTERNATIONAL HOLDINGS LIMITED – *continued*
(*incorporated in the Cayman Islands with limited liability*)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

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.
- 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.

Independent Auditor's Report

TO THE SHAREHOLDERS OF KOS INTERNATIONAL HOLDINGS LIMITED – *continued*
(*incorporated in the Cayman Islands with limited liability*)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

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 Del Rosario, Faith Corazon.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	6	80,872	66,291
Other income		318	114
Staff costs		(63,499)	(47,714)
Other expenses and losses		(14,866)	(8,434)
Impairment losses under expected credit loss ("ECL") model, net of reversal		(21)	65
Finance costs	7	(684)	(663)
Listing expenses		–	(12,987)
Profit (loss) before taxation	8	2,120	(3,328)
Income tax expense	9	(371)	(1,576)
Profit (loss) for the year		1,749	(4,904)
Other comprehensive expense <i>Item that may be reclassified subsequently to profit or loss:</i> Exchange differences arising on translation of a foreign operation		(73)	–
Total comprehensive income (expense) for the year		1,676	(4,904)
Earnings (loss) per share — basic (Hong Kong cent)	12	0.22	(0.76)

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Property, plant and equipment	13	3,243	4,311
Right-of-use asset	14	3,607	–
Rental deposit	15	747	766
		7,597	5,077
Current assets			
Accounts and other receivables	15	11,028	12,484
Tax recoverable		2,596	2,955
Pledged bank deposit	16	–	5,000
Bank balances and cash	16	29,938	27,800
		43,562	48,239
Current liabilities			
Other payables and accruals	17	6,087	6,017
Taxation payable		412	400
Lease liability	18	2,297	–
Bank borrowing	19	–	7,500
		8,796	13,917
Net current assets		34,766	34,322
Non-current liability			
Lease liability	18	1,596	–
Net assets		40,767	39,399
Capital and reserves			
Share capital	20	8,000	8,000
Reserves		32,767	31,399
Total equity		40,767	39,399

The consolidated financial statements on pages 47 to 103 were approved and authorised for issue by the Board of Directors on 23 March 2020 and are signed on its behalf by:

Chan Ka On Eddie
DIRECTOR

Chan Ka Shing Jackson
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2018	49	-	-	-	23,597	23,646
Effect of reorganisation	(49)	-	49	-	-	-
Capitalisation Issue (as defined in note 20)	6,000	(6,000)	-	-	-	-
Issue of shares upon Share Offer (as defined in note 20)	2,000	58,000	-	-	-	60,000
Transaction costs directly attributable to issue of shares	-	(12,262)	-	-	-	(12,262)
Loss and total comprehensive expense for the year	-	-	-	-	(4,904)	(4,904)
Dividends paid (note 11)	-	-	-	-	(27,081)	(27,081)
At 31 December 2018	8,000	39,738	49	-	(8,388)	39,399
Adjustments (note 3)	-	-	-	-	(308)	(308)
At 1 January 2019 (restated)	8,000	39,738	49	-	(8,696)	39,091
Profit for the year	-	-	-	-	1,749	1,749
Other comprehensive expense for the year	-	-	-	(73)	-	(73)
Total comprehensive (expense) income for the year	-	-	-	(73)	1,749	1,676
At 31 December 2019	8,000	39,738	49	(73)	(6,947)	40,767

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Operating activities		
Profit (loss) before taxation	2,120	(3,328)
Adjustments for:		
Depreciation of property, plant and equipment	1,447	398
Depreciation of right-of-use asset	2,164	–
Loss on written off of property, plant and equipment	–	95
Interest income	(248)	(79)
Finance costs	684	663
Impairment losses under ECL model, net of reversal	21	(65)
Operating cash flows before movements in working capital	6,188	(2,316)
Decrease (increase) in accounts and other receivables	1,401	(1,342)
Increase in other payables and accruals	83	3,103
Cash generated from (used in) operation	7,672	(555)
Hong Kong Profits Tax paid	–	(6,390)
Net cash generated from (used in) operating activities	7,672	(6,945)
Investing activities		
Purchase of property, plant and equipment	(379)	(4,445)
Withdrawal of pledged bank deposit	5,000	–
Interest received	248	79
Net cash generated from (used in) investing activities	4,869	(4,366)
Financing activities		
Proceeds from Share Offer	–	60,000
Dividends paid	–	(27,081)
Transaction costs directly attributable to issue of shares	–	(11,308)
Repayment of bank borrowing	(7,500)	(2,500)
Repayment of lease liability	(2,186)	–
Interest paid on lease liability	(254)	–
Interest paid on bank borrowing	(430)	(679)
Net cash (used in) generated from financing activities	(10,370)	18,432
Net increase in cash and cash equivalents	2,171	7,121
Cash and cash equivalents at beginning of the year	27,800	20,679
Effect of foreign exchange rates changes	(33)	–
Cash and cash equivalents at end of the year, represented by bank balances and cash	29,938	27,800

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

KOS International Holdings Limited (“the Company”) was incorporated in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands. Its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 October 2018 (the “Listing”). The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company’s immediate and ultimate holding company is KJE Limited (“KJE”), a company incorporated in the British Virgin Islands. The ultimate controlling parties of the Company are Mr. Chan Ka Kin Kevin (“Mr. Kevin Chan”), Mr. Chan Ka On Eddie (“Mr. Eddie Chan”), Mr. Chan Ka Shing Jackson (“Mr. Jackson Chan”) and Mr. Chow Ka Wai Raymond (“Mr. Raymond Chow”).

The Company is an investment holding company and its subsidiaries are principally engaged in providing recruitment services and secondment and payroll services in Hong Kong, Macau and the People’s Republic of China (the “PRC”). The Company and its subsidiaries are hereinafter collectively referred to as the “Group”.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the reorganisation stated in the Company’s prospectus issued on 28 September 2018 in connection with the Listing (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 15 June 2018. The companies now comprising the Group were under the common control of Mr. Kevin Chan, Mr. Eddie Chan, Mr. Jackson Chan and Mr. Raymond Chow before and after the Reorganisation. As a result, the Group resulting from the Reorganisation is regarded as a continuing entity. Therefore, the Reorganisation is considered as a business combination under common control and accounted for under merger accounting as mentioned below.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2018 include the results and changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the year ended 31 December 2018, or since their dates of incorporation, where there is a shorter period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

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

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

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

HKFRS 16 “Leases”

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

Definition of a lease

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liability and measured right-of-use asset at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated loss and comparative information has not been restated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

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

– continued

HKFRS 16 “Leases” – continued

As a lessee – continued

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

- i. elected not to recognise right-of-use asset and lease liability for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

When recognising the lease liability for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5%.

	At 1 January 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	6,918
Recognition exemption – short-term leases	(412)
Effect from discounting at the incremental borrowing rate as of 1 January 2019	(427)
Lease liability as at 1 January 2019	<u>6,079</u>
Analysed as	
Current	2,186
Non-current	<u>3,893</u>
	<u>6,079</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

New and Amendments to HKFRSs that are mandatorily effective for the current year
– continued

HKFRS 16 “Leases” – continued

As a lessee – continued

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

	At 1 January 2019 <i>HK\$'000</i>
Right-of-use asset relating to operating lease recognised upon application of HKFRS 16	5,771
By class:	
Leased office	5,771

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – continued

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

– continued

HKFRS 16 “Leases” – continued

As a lessee – continued

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

	Carrying amounts previously reported at 31 December 2018 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 January 2019 <i>HK\$'000</i>
Non-current assets			
Right-of-use asset	–	5,771	5,771
Current liabilities			
Lease liability	–	2,186	2,186
Non-current liability			
Lease liability	–	3,893	3,893
Capital and reserves			
Reserves	31,399	(308)	31,091

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *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 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

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

Except for the new and amendments to HKFRSs 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 Group’s financial positions and performance and/or on disclosures to the Group in foreseeable future.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

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

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *continued*

New and amendments to HKFRSs in issue but not yet effective – *continued*

Amendments to HKAS 1 and HKAS 8 “Definition of Material” – *continued*

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

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

The New Framework:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM 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 that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the 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 HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period.

Revenue recognition

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 or 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

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 customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if one of the following criteria is met:

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

If the control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

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 in due) from the customer.

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (for example, Secondment and payroll services are charged on a monthly basis during the service period based on either (i) an agreed percentage of the seconded staff's monthly recruitment package; or (ii) an agreed fixed amount of service fee), the Group recognises revenue in the amount to which the Group has the right to invoice.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Principal versus agent – continued

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

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

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

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) – continued

Right-of-use asset

The cost of right-of-use asset includes:

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

Right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability.

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

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

Lease liability

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

The lease payments include:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) – continued

Lease liability – continued

After the commencement date, lease liability is adjusted by interest accretion and lease payments.

The Group remeasures lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

The Group as lessee (prior to 1 January 2019)

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

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Retirement benefit costs and termination benefits

Payments to the Mandatory Provident Fund Scheme (the “MPF Scheme”) in Hong Kong, the Social Security Fund Contribution in Macau and the state-managed retirement benefit scheme managed by the PRC government are recognised as an expense when employees have rendered service entitling them to the contributions. A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term and other long-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 HKFRSs 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, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities’ carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRSs requires or permits their inclusion in the cost of an asset.

Borrowing costs

All borrowing costs which are not eligible for capitalisation to qualifying assets are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. 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 taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 base 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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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 in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Impairment on property, plant and equipment and right-of-use asset

At the end of the reporting period, the Group reviews the carrying amounts of property, plant and equipment and right-of-use asset 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 asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, 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.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment on property, plant and equipment and right-of-use asset – continued

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Property, plant and equipment

Property, plant and equipment held for use in the production of services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation of property, plant and equipment is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of the 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 asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for accounts receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 “Revenue from Contracts with Customers”. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of financial assets or financial liabilities 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 assets or financial liabilities, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and measurement of financial assets

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) on financial assets which are subject to impairment under HKFRS 9 “Financial Instruments” (including accounts and other receivables, rental deposit, pledged bank deposit and bank balances and cash). 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

The Group always recognises lifetime ECL for accounts receivables. The ECL on these assets are assessed individually for all debtors.

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, in which case 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.

Significant increase in credit risk

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Significant increase in credit risk – continued

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 foregoing, 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.

Definition of default

The Group considers that default has occurred when the instrument 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.

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

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 accounts receivables where the corresponding adjustment is recognised through a loss allowance account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower; or
- (b) a breach of contract, such as a default or past due event; or
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

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. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or 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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities, including other payables and bank borrowing, are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges 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 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 recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amount 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 estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

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

Provision of ECL for accounts receivables

The Group assessed credit risk of its individual customers by reference to external credit rating provided by independent qualified professional valuer, the Group's observed default rates and supportable forward-looking information that is available to the directors of the Company without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivables are disclosed in note 15.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. REVENUE AND SEGMENT INFORMATION

Recruitment services

The Group's recruitment services are to assist its customers in placing appropriate candidates for requested positions. Generally, the Group charges one-off service fees calculated based on an agreed percentage of the successfully placed candidate's monthly basic salary or annual remuneration package in the first year of his/her employment (the "Agreed Percentage"). For certain customers, the Group charges the service fees based on the fee calculated by the Agreed Percentage or an agreed minimum fee, whichever is higher. For certain placement of frontline staff, the Group generally charges a one-off fixed fee per successful placement. The performance obligations of recruitment services are to find appropriate candidates for the requested position. Pursuant to the terms of the recruitment services contracts, the Group is obliged to find the appropriate candidates for the requested position. In case the candidate resigns or the customer terminates employment in one to three months from the date of reporting duty by the candidate, the Group is obliged to find a one-off replacement within one to three months from the date when the Group is notified of such termination (the "Replacement Period"). In rare circumstances where the Group is unable to find replacement within the Replacement Period, the recruitment service fee will be refunded or credited to customer for future recruitment services. For the year ended 31 December 2019 and 2018, such reduction of recruitment service fees and refund to customers accounted for an immaterial portion of the recruitment services revenue. Payments are generally settled by customers within the credit periods of not more than 60 days offered by the Group after the successfully placed candidate's date of reporting duty.

For recruitment services for which the control of services is transferred at a point in time, revenue is recognised when the customer obtains the control of the completed services and the Group has present right to payment and the collection of the consideration is probable.

Secondment and payroll services

The Group's secondment and payroll services are to second the suitable staff of the Group to its customers (the "Seconded Staff"). The performance obligations of secondment and payroll services are to second suitable Seconded Staff to its customers.

The Group satisfies the performance obligation by finding suitable Seconded Staff to work at the customer's workplace. Revenue is recognised over time where the customer received and consumed the benefits of the secondment and payroll services simultaneously, i.e. find a Seconded Staff, as the management of the Group considered the Group has fulfilled its performance obligations throughout a period of time and revenue is therefore recorded evenly throughout the service period. The Group generally charges the service fee either on a fixed amount per staff on a monthly bases or on a cost plus basis. The Group elected to apply the practical expedient by recognising the secondment and payroll services revenue in the amount to which the Group has right to invoice. As permitted under HKFRS15, the transaction price allocated to unsatisfied contract is not disclosed. Payments are generally settled by clients within the credit periods of not more than 60 days from the date of invoices which are issued once or twice a month to respective clients.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. REVENUE AND SEGMENT INFORMATION – continued

Secondment and payroll services – continued

For secondment and payroll services for which the control of the service is transferred when the Group had assigned the seconded staff to the customer over the secondment period, revenue is recognised when the customer simultaneously received secondment and payroll services and consumed the benefits provided by the Group's performance. The management of the Group considered the Group as a principal given (i) the Group is primarily responsible for fulfilling the required human resources services for its customers, that is, it has the discretion in selecting and assigning a particular staff to be seconded to its customer's workplace pursuant to the customer's requirements, directing the staff to satisfy the specific performance obligation under the secondment arrangement, and also the discretion in selecting replacement if necessary; (ii) the Group has inventory risk as the seconded staff remains employee of the Group before and after the relevant secondment; and (iii) it has the discretion in establishing the price for the relevant services; and as such the management of the Group recognises revenue in gross amount of consideration to which it expects to be entitled in exchange for the secondment and payroll services transferred.

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

Disaggregation of revenue

	2019 HK\$'000	2018 HK\$'000
Recruitment services		
– Hong Kong	44,707	36,001
– The PRC	3,342	–
	48,049	36,001
Secondment and payroll services		
– Hong Kong	30,490	26,951
– Macau	2,333	3,339
	32,823	30,290
Total	80,872	66,291

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. REVENUE AND SEGMENT INFORMATION – continued

Segment information

The Group's operating segment is determined based on information reported to the chief operating decision maker of the Group (the executive directors of the Company) for the purpose of resource allocation and performance assessment. For management purpose, the Group operates in one business unit based on their services, and only has one operating segment, human resource services operation. The chief operating decision maker reviews the revenue and results of the Group as a whole without further discrete financial information.

Accordingly, no analysis of this single operating and reportable segment is presented.

The majority of Group's revenue is generated from Hong Kong, and majority of non-current assets are located in Hong Kong.

Information about major customers

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

	2019 HK\$'000	2018 HK\$'000
Customer A	26,566	26,610
Customer B	N/A*	9,492

* Revenue from Customer B doesn't contribute over 10% of the total revenue of the Group for the year.

7. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank borrowing	430	663
Interest on lease liability	254	–
	684	663

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8. PROFIT (LOSS) BEFORE TAXATION

	2019 HK\$'000	2018 HK\$'000
Profit (loss) before taxation has been arrived at after charging (crediting):		
Directors' remuneration (note 10)	2,922	438
Salaries and allowance for staff excluding directors	58,501	45,920
Retirement benefit schemes contributions for staffs excluding directors	2,076	1,356
Total staff costs	63,499	47,714
Minimum lease payment in respect of rental premises	–	1,638
Rental expenses in respect of short-term leases	628	–
Depreciation of right-of-use asset	2,164	–
Depreciation of property, plant and equipment	1,447	398
Auditor's remuneration	1,000	900
Interest income from bank deposits	(248)	(79)

9. INCOME TAX EXPENSE

	2019 HK\$'000	2018 HK\$'000
Hong Kong Profits tax		
– current tax	440	1,609
– overprovision in prior years	(69)	(33)
	371	1,576

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the year.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced 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 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 in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the 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 for the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9. INCOME TAX EXPENSE – continued

Macau Complementary Tax is calculated at 12% of the estimated assessable profits exceeding Macao Pataca (“MOP”) 600,000 for each of the years ended 31 December 2019 and 2018. No provision of Macau Complementary Tax was made as the subsidiary in Macau has no assessable profit exceeding MOP600,000 in both years.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for the year. No provision of EIT was made as the subsidiary in PRC has no assessable profit during the year.

The income tax expense for the year can be reconciled to the profit (loss) before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 HK\$'000	2018 HK\$'000
Profit (loss) before taxation	2,120	(3,328)
Tax at Hong Kong Profits Tax rate of 16.5%	350	(549)
Tax effect of income not taxable for tax purposes	(12)	(17)
Tax effect of expenses not deductible for tax purposes	234	2,562
Tax effect of deductible temporary difference not recognised	149	–
Utilisation of deductible temporary difference previously not recognised	–	(138)
Tax effect of different tax rate of subsidiaries operating in other jurisdiction	(43)	(18)
Tax effect of tax exemption under Macau Complimentary Tax	(35)	(46)
Overprovision in respect of prior years	(69)	(33)
Tax concession	(165)	(165)
Others	(38)	(20)
Income tax expense for the year	371	1,576

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

10. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES

Mr. Kevin Chan, Mr. Eddie Chan and Mr. Jackson Chan have been appointed as the directors of the Company on 19 December 2017 (date of incorporation), and were re-designated as the executive directors of the Company on 31 January 2018. Ms. Yeung Shek Shek Louisa ("Ms. Yeung") joined the Group on 1 April 2017, and has been appointed as chief executive of the Company on 31 January 2018.

On 13 September 2018, the Company appointed Mr. Tong Kam Piu, Mr. Poon Kai Kin and Mr. Wang Ho Pang as independent non-executive directors of the Company.

Directors and Chief Executive

Directors' and chief executive's remuneration paid or payable (including emoluments for the services as an employee of the group entities prior to becoming the chief executive of the Company) by the entities comprising the Group during the year, disclosed pursuant to the applicable GEM Listing Rules and the Hong Kong Companies Ordinance is as follows:

For the year ended 31 December 2019

	Executive directors			Independent non-executive directors			Chief executive		Total
	Mr. Kevin Chan	Mr. Eddie Chan	Mr. Jackson Chan	Mr. Tong Kam Piu	Mr. Poon Kai Kin	Mr. Wang Ho Pang	Subtotal	Ms. Yeung	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	-	-	-	120	120	120	360	-	360
Other emoluments									
- Salaries and other benefits	836	836	836	-	-	-	2,508	1,300	3,808
- Retirement benefit scheme contributions	18	18	18	-	-	-	54	18	72
	854	854	854	120	120	120	2,922	1,318	4,240

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

10. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES – continued

Directors and Chief Executive – continued

For the year ended 31 December 2018

	Executive directors			Independent non-executive directors			Chief executive		Total
	Mr. Kevin Chan	Mr. Eddie Chan	Mr. Jackson Chan	Mr. Tong Kam Piu	Mr. Poon Kai Kin	Mr. Wang Ho Pang	Subtotal	Ms. Yeung	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fee	-	-	-	26	26	26	78	-	78
Other emoluments									
- Salaries and other benefits	116	116	116	-	-	-	348	1,200	1,548
- Retirement benefit scheme contributions	4	4	4	-	-	-	12	18	30
	120	120	120	26	26	26	438	1,218	1,656

The executive directors' emoluments shown above were for their services in connection with the management of the affairs as directors of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

The chief executive's emoluments shown above were for her services in connection with the management of the affairs as chief executive officer of the Company and the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

10. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES – continued

Employees

The five highest paid individuals of the Group do not include any directors of the Company for each of the reporting period. Details of the remuneration for the year of the five highest paid employees who are not directors of the Company are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	6,417	4,537
Sign-on bonus	–	342
Retirement benefit scheme contributions	90	72
	6,507	4,951

The number of the highest paid individuals who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2019 No. of employees	2018 No. of employees
Nil to HK\$1,000,000	–	3
HK\$1,000,001 to HK\$1,500,000	5	2
	5	5

An amount of HK\$342,000 was paid to two of the five highest paid individuals of the Group as a sign-on bonus during the year ended 31 December 2018. No emoluments were paid by the Group to the directors or chief executive of the Company or the 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 waived or agreed to waive any emoluments during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11. DIVIDENDS

On 13 April 2018, KOS International Limited, incorporated in Hong Kong, a wholly-owned subsidiary of the Company, paid dividends for the amount of HK\$5,081,000 to its shareholders and the Company paid special dividends for the amounts of HK\$18,000,000 and HK\$4,000,000 to its then shareholders on 12 September 2018 and 21 September 2018, respectively.

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of the consolidated financial statements.

No dividend has been proposed by the directors of the Company for the year ended 31 December 2019 up to date of issuance of this report.

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2019 HK\$'000	2018 HK\$'000
Profit (loss) for the year	1,749	(4,904)

	2019	2018
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings (loss) per share	800,000,000	644,383,562

The weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share has been determined on the assumption that the Capitalisation Issue (as defined in note 20) had been effective on 1 January 2018.

No diluted earnings (loss) per share for years ended 31 December 2019 and 2018 were presented as there were no potential ordinary shares in issue during the years ended 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2018	548	241	576	1,365
Additions	3,534	384	527	4,445
Written off	(548)	(176)	(396)	(1,120)
At 31 December 2018	3,534	449	707	4,690
Additions	–	146	233	379
At 31 December 2019	3,534	595	940	5,069
DEPRECIATION				
At 1 January 2018	398	171	437	1,006
Provided for the year	268	42	88	398
Eliminated on written off	(478)	(165)	(382)	(1,025)
At 31 December 2018	188	48	143	379
Provided for the year	1,177	106	164	1,447
At 31 December 2019	1,365	154	307	1,826
CARRYING VALUES				
At 31 December 2019	2,169	441	633	3,243
At 31 December 2018	3,346	401	564	4,311

The above items of property, plant and equipment are depreciated on a straight-line method at the following rates per annum:

Leasehold improvements	Over the term of the lease
Furniture and equipment	20%
Office equipment	20%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14. RIGHT-OF-USE ASSET

	Leased office <i>HK\$'000</i>
As at 1 January 2019	
Carrying amount	5,771
Depreciation charge for the year	2,164
As at 31 December 2019	
Carrying amount	3,607
Expenses related to short-term leases and other leases with lease terms and with 12 months of the date of initial application of HKFRS 16	628
Total cash outflow for leases	3,068

The Group leases various offices for its operations. Lease contracts are entered into for fixed term of 1 year to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The right-of-use asset is depreciated on a straight-line basis over the short of its estimated useful life and the lease term.

The Group regularly entered into short-term leases for offices. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short term lease expense disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. ACCOUNTS AND OTHER RECEIVABLES AND RENTAL DEPOSIT

	2019 HK\$'000	2018 HK\$'000
Accounts receivables	10,195	11,053
Less: Allowance for ECL	(248)	(227)
	9,947	10,826
Other receivables		
– Prepayments	764	1,180
– Rental and utility deposits	1,049	1,244
– Others	15	–
	11,775	13,250
Less: Receivables within twelve months shown under current assets	(11,028)	(12,484)
	747	766

As at 1 January 2018, accounts receivables from contracts with customers amounted HK\$11,279,000.

Generally, the Group allows a credit period of not more than 60 days to its customers.

The following is an ageing analysis of accounts receivables presented based on the revenue recognition date at the end of the reporting period.

	2019 HK\$'000	2018 HK\$'000
Within 30 days	5,462	4,258
31 to 60 days	1,300	1,026
61 to 90 days	1,217	666
91 to 180 days	1,836	3,499
Over 180 days	132	1,377
	9,947	10,826

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. ACCOUNTS AND OTHER RECEIVABLES AND RENTAL DEPOSIT

– continued

The management of the Group closely monitors the credit quality of accounts receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that are neither past due nor impaired related to a wide range of customers for whom there is no history of default.

In determining the recoverability of the accounts receivables, the Group monitors any changes in the credit quality of the accounts receivables since the credit was granted and up to the end of the reporting period. The directors consider that the Group has no significant concentration of credit risk on its accounts receivables, with exposure spread over a number of counterparties and customers.

As at 31 December 2019, included in the Group's accounts receivables balances are debtors with aggregate carrying amount of HK\$3,176,000 (2018: HK\$7,365,000) which are past due as at the reporting date. Included in the past due balances of HK\$498,000 (2018: HK\$4,441,000) has been past due over 90 days or more and is not considered as in default. The directors of the Company are in the view that there have been no significant increase in credit risk nor default because of good repayment records for those customers and continuous business with the Group.

Impairment assessment on accounts receivables subject to ECL model

As part of the Group's credit risk management, the Group takes reference to external credit rating of its customers and the Group's historical observed default rates and are adjusted for forward-looking information that is available without undue cost or effort. The following tables provide information about the exposure to credit risk and ECL for accounts receivables which are assessed individually.

2019

	Gross carrying amount HK\$'000	Weighted average loss rate	Allowance for ECL HK\$'000
Low risk	6,152	0.07%	4
High risk	4,043	6.04%	244
	10,195		248

2018

	Gross carrying amount HK\$'000	Weighted average loss rate	Allowance for ECL HK\$'000
Low risk	5,145	0.33%	17
High risk	5,908	3.55%	210
	11,053		227

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. ACCOUNTS AND OTHER RECEIVABLES AND RENTAL DEPOSIT

– continued

Impairment assessment on accounts receivables subject to ECL model – continued

Quality classification definitions:

“Low risk”:	The counterparty has low risk of default or does not have any past due amounts
“High risk”:	There have been significant increase in credit risk since initial recognition through information developed, internally or external resources

The estimated loss rates are estimated based on the external credit rating, the Group’s observed default rates and supportable forward-looking information that is available to the directors of the Company without undue cost or effort. As at 1 January 2019 and 31 December 2019, there was no credit-impaired accounts receivables.

The movement in the allowance for impairment in respect of accounts receivables for the year ended 31 December 2019 is as follows:

	HK\$'000
Balance at 1 January 2018	292
Impairment losses reversed	(65)
	<hr/>
Balance at 31 December 2018	227
Impairment losses recognised	21
	<hr/>
Balance at 31 December 2019	248

16. BANK BALANCES AND CASH/PLEDGED BANK DEPOSIT

Bank balances carried interest at prevailing market interest rates based on daily bank deposits rates for the year.

The pledged bank deposit has been released from the charge during the year ended 31 December 2019. Pledged bank deposit as at 31 December 2018 represented deposit pledged to bank to secure banking facilities granted to the Group and carried fixed interest rate at 1.5% per annum.

For the year ended 31 December 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for ECL is provided.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

17. OTHER PAYABLES AND ACCRUALS

	2019 HK\$'000	2018 HK\$'000
Other payables	450	276
Accrued expenses	1,590	1,808
Accrued payroll expenses	4,047	3,909
Accrued listing expenses/share issue costs	–	24
	6,087	6,017

18. LEASE LIABILITY

	2019 HK\$'000
Lease liability payable:	
Within one year	2,297
Within a period of more than one year but not more than two years	1,596
	3,893
Less: Amount due from settlement with 12 months show under current liabilities	(2,297)
	1,596

The Company does not expose to a significant liquidity risk with regard to its lease liability. Lease liability is monitored by the Company's treasury function. The weighted average lessee's incremental borrowing rate is 5% per annum for the year ended 31 December 2019 (2018: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

19. BANK BORROWING

	2019 HK\$'000	2018 HK\$'000
Secured bank borrowing	-	7,500
The carrying amount of bank borrowing that contains a repayment on demand clause but repayable:		
Within one year	-	7,500

As at 31 December 2018, the Group's borrowing carries variable interest rate at 2.5% above Hong Kong Interbank Offered Rate ("HIBOR"). The effective interest rate on the Group's borrowing is 4.91% for the year ended 31 December 2018.

The Group's borrowing was secured by a pledged bank deposit which has been released during the year when the bank borrowing is fully settled.

20. SHARE CAPITAL

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands on 19 December 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each.

The share capital as at 31 December 2017 represented the combined issued share capital of following companies:

	As at 31 December 2017 HK\$'000
KOS International Limited, incorporated in Hong Kong	10
KOS International Limited, incorporated in Macau	29
KOS Staffing Limited	10
The Company	-
	49

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

20. SHARE CAPITAL – continued

Details of movements of authorised and issued capital of the Company are as follows:

	Number of shares	Share capital HK\$
Ordinary share of HK\$0.01 each		
Authorised:		
At 1 January 2018	38,000,000	380,000
Increase during the year (note ii)	3,962,000,000	39,620,000
At 31 December 2019 and 2018	4,000,000,000	40,000,000
Issued and fully paid:		
At 1 January 2018	100	1
Allotment of shares (note i)	49,900	499
Issue of new shares upon listing (note iii)	200,000,000	2,000,000
Capitalisation Issue (note iv)	599,950,000	5,999,500
At 31 December 2019 and 2018	800,000,000	8,000,000

Notes:

- (i) On 13 June 2018, the Company allotted 29,925 and 9,975 new shares at par value of HK\$0.01 each to KJE and Caiden Holdings Limited (“Caiden”), respectively, to acquire the entire equity interests in KOS International Limited and KOS Staffing Limited.

On 15 June 2018, the Company allotted 7,500 and 2,500 new shares at par value of HK\$0.01 each to KJE and Caiden, respectively, to acquire the entire equity interests in KOS International Limited, incorporated in Macau.
- (ii) Pursuant to the written resolutions of the then shareholders of the Company passed on 13 September 2018, the authorised share capital of the Company was increased from HK\$380,000 to HK\$40,000,000 by the creation of an additional 3,962,000,000 shares in the authorised share capital of the Company.
- (iii) In connection to the Listing on 12 October 2018, the Company allotted and issued a total of 200,000,000 new ordinary shares at HK\$0.3 per share with gross proceeds at HK\$60,000,000 (the “Share Offer”).
- (iv) A sum of HK\$5,999,500 standing to the credit of the share premium account of the Company was capitalised and applied such amount to pay up in full at par of 599,950,000 ordinary shares of the Company (the “Capitalisation Issue”).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

21. 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 the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net debt, which includes cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group review the capital structure on a regular basis. As part of this review, the management of the Group considers the cost and the risks associates with each class of capital. Based on recommendations of the management of the Group, 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.

22. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK\$'000	2018 HK\$'000
Financial assets		
Amortised cost (including cash and cash equivalents)	40,857	44,801
Financial liabilities		
Amortised cost	450	7,776
Lease liability	3,893	–

Financial risk management objectives and policies

The Group's financial instruments include accounts and other receivables, rental deposit, pledged bank deposit, bank balances and cash, other payables, lease liability and bank borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rate.

The Group is exposed to fair value interest rate risk in relation to pledged bank deposit and lease liability (see note 16 and 18, respectively). The Group is also exposed to cash flow interest rate risk in relation to bank balances (see note 16). The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HK\$ denominated bank borrowing.

Sensitivity analysis

The sensitivity analyses below have been determined on the exposure to interest rate for non-derivative instrument at the end of reporting period. The analysis is prepared assuming the financial instrument outstanding at the end of the reporting period was outstanding for whole year. A 50 basis point increase or decrease in variable-rate bank borrowing is used represents management's assessment of the reasonably possible change in interest rate.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by HK\$31,000. This is mainly attributable to the Group's exposure to interest rate on its variable-rate bank borrowing.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Credit risk

Overview of the Group's exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. 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 arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its accounts receivables. In order to minimise the credit risk, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items as disclosed in note 15.

As at 31 December 2019, the Group has concentration of credit risk as 24% (2018: 40%) of the total accounts receivables was due from the Group's largest debtor. The Group's concentration of credit risk on the top five largest debtors accounted for 56% (2018: 68%) of the total accounts receivables as at 31 December 2019. The management of the Group considered the credit risk of amounts due from these customers is insignificant after considering their historical settlement record, credit quality and financial position.

The Group considered the credit risk on the other receivables and rental deposit at the end of the reporting period using the past due information and concluded that there has been no significant increase in credit risk since initial recognition. No loss allowance is made for other receivables and rental deposit as the amount of ECL with respect to these balances is considered insignificant.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the management, 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 and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial liabilities.

The following tables detail the Group's remaining contractual maturity for its 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.

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 year.

Liquidity tables

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	Over 3 months but not more than 1 year HK\$'000	Over 1 year but not more than 2 years HK\$'000	Total undiscounted cash flows HK\$'000	Carry amount HK\$'000
At 31 December 2019						
Lease liability	5	610	1,830	1,626	4,066	3,893
Other payables	-	450	-	-	450	450
		1,060	1,830	1,626	4,516	4,343

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	Over 3 months but not more than 1 year HK\$'000	Over 1 year but not more than 2 years HK\$'000	Total undiscounted cash flows HK\$'000	Carry amount HK\$'000
At 31 December 2018						
Other payables	-	276	-	-	276	276
Bank borrowing	4.91	7,500	-	-	7,500	7,500
		7,776	-	-	7,776	7,776

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each year.

The bank borrowing with a repayment on demand clause are also included in the “on demand or less than 3 months” time band in the above maturity analysis. As at 31 December 2018, the carrying amount of bank borrowing amounted to HK\$7,500,000 and at that time, the aggregate principal and interest cash outflows is amounted to HK\$7,713,000. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment.

	On demand or less than 6 months <i>HK\$'000</i>	6 months to 1 year <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
At 31 December 2018	2,652	5,061	7,713	7,500

The bank borrowing has been fully repaid during the year ended 31 December 2019 in accordance with the scheduled repayment dates set out in bank borrowing agreement.

23. OPERATING LEASES

The Group as lessee

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

	2018 <i>HK\$'000</i>
Within one year	2,852
In the second to fifth years inclusive	4,066
	<hr/>
	6,918

Operating lease payments represent rentals payable by the Group for its offices. These leases are negotiated for lease terms ranging from one to three years with fixed monthly rentals. None of the leases include any contingent rentals.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

24. RELATED PARTY TRANSACTIONS

(i) The Group had entered into the following related party transactions:

Name of related party	Relationship	Nature of transaction	2019 HK\$'000	2018 HK\$'000
The iBros Company Limited	Related company ¹	Income from provision of secondment and payroll services	-	47
Sinokor Investment Corporation Limited	Related company ²	Income from provision of secondment and payroll services	-	357
		Marketing expenses	-	57
Supreme-Pacific Confectionery Limited	Related company ²	Marketing expenses	93	-

In January 2019, the Group entered into transactions with respective related parties.

¹ Mr. Kevin Chan is a controlling shareholder and director of this company.

² Mr. Kevin Chan is a shareholder/director/member of the key management personnel of this company.

(ii) Compensation of key management personnel

The remuneration of directors and other member of key management during the year was as follows:

	2019 HK\$'000	2018 HK\$'000
Short-term benefits	6,701	3,312
Post-employments benefits	126	72
	6,827	3,384

Further details of the directors' emoluments are included in note 10.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

25. RETIREMENT BENEFITS PLANS

The Group participates in the MPF Scheme for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Eligible employees of the Group are covered by a government-mandated defined contribution plan pursuant to which a fixed amount of retirement benefit would be determined and paid by the Macau Government. Contributions are generally made by both employees and employers by paying a fixed amount on a monthly basis to the Social Security Fund Contribution managed by the Macau Government. The Group funds the entire contribution and has no further commitments beyond its monthly contributions.

The subsidiary in the PRC is required to make contributions to the state-managed retirement scheme in the PRC based on a specific percentage of the payroll costs of its current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

The total cost of HK\$2,130,000 (2018: HK\$1,368,000) charged to profit or loss represents contributions paid or payable to the above schemes by the Group for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

26. SHARE OPTION SCHEME

Pursuant to the written resolutions of the then shareholders passed on 13 September 2018, a share option scheme was adopted for the primary purpose of providing incentives or rewards to selected participants. The share option scheme shall be valid and effective for a period of 10 years commencing on 13 September 2018.

Under the scheme, the board of directors of the Company may grant options to directors, employees, suppliers, clients, consultants, agents, advisers, franchisees, joint venture partners and related entities to the Company and its subsidiaries and entities in which the Group holds equity interest at the discretion of the board of directors pursuant to the terms of the scheme, to subscribe for shares of the Company at a price which shall not be less than the highest of (i) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option (which must be a business day); (ii) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day); and (iii) the nominal value of the shares.

The maximum number of shares in respect of which options shall be granted under the scheme and any other share option schemes of the Company is 10% of the total number of shares in issue at the date of approval of adoption of the scheme. No director, employee or eligible participant may be granted options under the scheme which will enable him or her if exercise in full to subscribe for more than 1% of the issued share capital of the Company in any 12-month period. The option period for which the options granted can be exercisable, shall be such period as notified by the Board, save that it shall not be more than 10 years from the date of grant subject to the terms of the scheme. Nominal consideration of HK\$1 is payable on acceptance of each grant and the share options granted shall be accepted within 28 days from the date of grant.

No share option was granted or remained outstanding under the scheme during the years ended 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Shareholding/equity interest attributable to the Company		Principal activities
			2019	2018	
<i>Directly held:</i>					
KOS International (BVI) Limited	BVI	US\$1	100%	100%	Investment holding
KOS Macau (BVI) Limited	BVI	US\$1	100%	100%	Investment holding
<i>Indirectly held:</i>					
KOS International Limited	Hong Kong	Ordinary shares HK\$10,000	100%	100%	Provision of recruitment and secondment and payroll services
KOS International Limited	Macau	Ordinary shares MOP30,000	100%	100%	Provision of secondment and payroll services
KOS Staffing Limited	Hong Kong	Ordinary shares HK\$10,000	100%	100%	Provision of recruitment and secondment and payroll services
KOS Business Consulting (Shenzhen) Limited* 高奧士人力資源服務(深圳)有限公司	PRC	Registered capital US\$165,000	100%	–	Provision of recruitment services
KOS Solutions Limited	Hong Kong	Ordinary shares HK\$10,000	100%	–	Provision of secondment and payroll services

* The English name of the wholly foreign owned enterprise registered in the PRC is for identification purpose only.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

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28. 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 from financing activities.

	Accrued issue costs <i>HK\$'000</i>	Bank borrowing <i>HK\$'000</i>	Interest payables <i>HK\$'000</i>	Lease liability <i>HK\$'000</i>	Dividend payables <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	255	10,000	16	-	-	10,271
Financing cash flows	(11,308)	(2,500)	(679)	-	(27,081)	(41,568)
Issue costs accrued	11,053	-	-	-	-	11,053
Dividends recognised as distribution	-	-	-	-	27,081	27,081
Interest expense	-	-	663	-	-	663
At 31 December 2018	-	7,500	-	-	-	7,500
Adjustment upon application of HKFRS 16	-	-	-	6,079	-	6,079
As at 1 January 2019 (restated)	-	7,500	-	6,079	-	13,579
Financing cash flows	-	(7,500)	(430)	(2,440)	-	(10,370)
Interest expense	-	-	430	254	-	684
At 31 December 2019	-	-	-	3,893	-	3,893

Notes to the Consolidated Financial Statements

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29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK\$'000	2018 HK\$'000
Non-current asset		
Investments in subsidiaries	–	–
Current assets		
Other receivables and prepayments	119	353
Amounts due from subsidiaries	36,785	35,792
Bank balances	628	–
	37,532	36,145
Current liabilities		
Other payables and accruals	294	156
Taxation payable	90	61
	384	217
Net current assets	37,148	35,928
Total assets less current liabilities	37,148	35,928
Capital and reserves		
Share capital	8,000	8,000
Reserves	29,148	27,928
Total equity	37,148	35,928

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

Movement of the reserves

	Share premium HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2018	–	–	(3,766)	(3,766)
Capitalisation Issue	(6,000)	–	–	(6,000)
Issue of shares upon Share Offer	58,000	–	–	58,000
Transaction costs directly attributable to issue of shares	(12,262)	–	–	(12,262)
Effect of group reorganisation	–	26,601	–	26,601
Loss and total comprehensive expense for the year	–	–	(12,645)	(12,645)
Dividends	–	–	(22,000)	(22,000)
At 31 December 2018	39,738	26,601	(38,411)	27,928
Profit and total comprehensive income for the year	–	–	1,220	1,220
At 31 December 2019	39,738	26,601	(37,191)	29,148

Other reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company pursuant to a group reorganisation in June 2018 and the nominal value of the Company's shares issued for the acquisition.

30. EVENT AFTER THE REPORTING PERIOD

An outbreak of respiratory illness caused by novel coronavirus (the "COVID-19") has been expanded across the PRC and globally. Since then, major cities in the PRC have taken emergency public health measures and draconian measures including travel restrictions in an effort to contain the COVID-19 outbreak.

The PRC subsidiary of the Company has been directed by the local government to facilitate the prevention and control measures of the COVID-19 pneumonia epidemic (the "Epidemic"), including expanding the Chinese New Year holidays, and adopted safety reparations for resuming operation under the guidance and approval of the local government.

Further, the Group, including its PRC Subsidiary, has implemented prevention and control measures for the Epidemic, such as keep close track of the employees' health situation and the development of the Epidemic, to ensure the Group's continued capacity to operate its business.

The directors of the Company will continue to assess the impact of the Epidemic on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the Epidemic.

Financial Summary

RESULTS	Year ended 31 December			
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	80,872	66,291	65,426	46,670
Profit (loss) before taxation	2,120	(3,328)	20,009	6,857
Income tax expense	(371)	(1,576)	(3,864)	(1,033)
Profit (loss) for the year	1,749	(4,904)	16,145	5,824

ASSETS AND LIABILITIES	At 31 December			
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total assets	51,159	53,316	39,382	12,308
Total liabilities	(10,392)	(13,917)	(15,444)	(3,319)
	40,767	39,399	23,938	8,989
Equity attributable to owners of the Company	40,767	39,399	23,938	8,989

The summary of the consolidated results of the Group for each of the years ended 31 December 2016 and 2017 and of the consolidated assets and liabilities of the Group as at 31 December 2016 and 2017 has been extracted from the prospectus issued on 28 September 2018 in connection with the Listing of the Company's shares on the Stock Exchange on 12 October 2018.