# Reach New Holdings Limited
# 新達控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8471)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

*This announcement, for which the directors (the "Directors" or individually, a "Director") of Reach New 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 announcement 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 announcement misleading.*

## ANNUAL RESULTS

The board of Directors (the "**Board**") is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2017 together with the comparative audited figures for the year ended 31 December 2016. The financial information has been approved by the Board.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

| | *Notes* | **2017**<br>***RMB'000*** | 2016<br>*RMB'000* |
|---|---|---|---|
| Revenue | *2* | **102,807** | 105,199 |
| Cost of sales | | **(66,821)** | (65,575) |
| Gross profit | | **35,986** | 39,624 |
| Other income, gains and losses | | **(263)** | 1,371 |
| Distribution and selling expenses | | **(4,529)** | (5,036) |
| Administrative expenses | | **(23,192)** | (18,319) |
| Listing expenses | | **(11,008)** | (2,294) |
| (Loss) profit before tax | | **(3,006)** | 15,346 |
| Income tax expense | *5* | **(3,457)** | (5,715) |
| (Loss) profit for the year and total comprehensive (expense) income for the year attributable to owners of the Company | *3* | **(6,463)** | 9,631 |
| (Loss) earnings per share, basic (RMB cents) | *6* | **(0.94)** | 1.61 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **19,932** | 20,982 |
| Intangible asset | | **92** | 118 |
| | | **20,024** | 21,100 |
| CURRENT ASSETS | | | |
| Inventories | | **4,113** | 3,187 |
| Trade receivables | 7 | **19,837** | 17,773 |
| Prepayments and other receivables | 7 | **1,305** | 2,011 |
| Amount due from ultimate holding company | | **18** | 11 |
| Bank balances and cash | | **44,638** | 23,308 |
| | | **69,911** | 46,290 |
| CURRENT LIABILITIES | | | |
| Trade payables | 8 | **8,383** | 10,862 |
| Other payables | 8 | **5,349** | 4,060 |
| Receipt in advance | | **978** | 566 |
| Amounts due to directors | | **–** | 4,321 |
| Tax payable | | **627** | 2,103 |
| | | **15,337** | 21,912 |
| NET CURRENT ASSETS | | **54,574** | 24,378 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **74,598** | 45,478 |
| NON-CURRENT LIABILITY | | | |
| Deferred tax liability | | **55** | 1,000 |
| NET ASSETS | | **74,543** | 44,478 |
| CAPITAL AND RESERVES | | | |
| Share capital | 9 | **6,890** | – |
| Reserves | | **67,653** | 44,478 |
| TOTAL EQUITY | | **74,543** | 44,478 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements for the year, the Group has consistently applied all HKFRSs, Hong Kong Accounting Standards ("**HKASs**"), amendments and interpretations ("**HK(IFRIC)-Int**") issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2017 consistently throughout the year.

**Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |

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

**Amendments to HKAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the addition disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

**New and revised HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)–Int 23 | Uncertainty over Income Tax Treatments[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[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 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle[2] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[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 2021

**HKFRS 9 *Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

One of the key requirements of HKFRS 9 that are applicable to the Group includes the impairment of financial assets, of which HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies at 31 December 2017, the directors of the Company are of the view that the application of the expected credit loss model of HKFRS 9 may result in early recognition of credit losses on the Group's financial assets measured at amortised cost taking into account the estimated credit risk of the customers the Group has business with and the actual allowance for doubtful debts experienced.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may not have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

**HKFRS 15** ***Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces 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 entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

**HKFRS 16** ***Leases***

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately RMB4,265,000 as disclosed in note 10. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB10,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

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

## 2. REVENUE AND SEGMENT INFORMATION

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of printing products | **47,461** | 51,400 |
| Sales of woven labels | **26,190** | 28,395 |
| Sales of printed labels | **23,847** | 19,741 |
| Others | **5,309** | 5,663 |
| | **102,807** | 105,199 |

Information reported to the Chief Executive Officer of the Group, being the chief operating decision maker ("**CODM**") regularly review revenue analysis by major products as set out in the revenue analysis above for the purpose of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete consolidated financial statements is regularly reviewed by the CODM for the purpose of resource allocation and assessment of performance of respective businesses which generate different types of revenue. The CODM review the operating results of the Group as a whole to make decisions about resource allocation and for performance assessment. The operation of the Group constitutes one single operating and reportable segment under HKFRS 8 "*Operating Segments*" and accordingly no separate segment information is presented.

### Geographical information

*Revenue by geographical location*

The Group's operations are located in the People's Republic of China (the "**PRC**"). All of the Group's non-current assets and capital expenditure are located or utilised in the PRC.

### Information about major customers

Revenue from a customer that individually contributing over 10% of the total sales are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A | **18,007** | 15,207 |

## 3. (LOSS) PROFIT FOR THE YEAR

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| (Loss) profit for the year has been arrived at after charging: | | |
| Directors' remuneration | **2,588** | 584 |
| Other staff costs | | |
| — salaries and wages | **22,155** | 26,051 |
| — retirement benefits scheme contribution excluding directors | **2,701** | 3,178 |
| Total directors and other staff costs | **27,444** | 29,813 |
| Allowance for doubtful debts | **327** | 141 |
| Auditor's remuneration | **985** | 277 |
| Cost of inventories recognised as cost of sales | **35,984** | 33,226 |
| Depreciation | **4,326** | 5,060 |
| Amortisation of an intangible asset (included in administrative expenses) | **26** | 27 |
| Minimum lease payments under operating leases | **2,786** | 2,762 |
| Allowance for inventories | **–** | 8 |

## 4. DIVIDEND

During the year ended 31 December 2017, special dividends in respect of the year ended 31 December 2016 of approximately RMB70,880 (2016: nil) per ordinary share, in aggregate of approximately RMB7,137,000 (2016: nil) were declared and approved by the directors.

No dividend in respect of the year ended 31 December 2017 were declared and approved by the directors.

## 5. INCOME TAX EXPENSE

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Current tax: | | |
| Provision for the year | **3,550** | 4,788 |
| Overprovision in prior years | **(93)** | (73) |
| | **3,457** | 4,715 |
| Withholding tax | **945** | – |
| Deferred tax — current year | **(945)** | 1,000 |
| | **3,457** | 5,715 |

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands pursuant to the rules and regulations in those jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the year ended 31 December 2017 (2016: nil).

The Group is subject to the PRC Enterprise Income Tax (the "**PRC EIT**") at a rate of 25% (2016: 25%) and dividend withholding tax at a rate of 5% (2016: 10%) for the year ended 31 December 2017.

Current tax provision represents provision for the PRC EIT.

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss) profit before tax | **(3,006)** | 15,346 |
| Tax at the PRC EIT rate of 25% (2016: 25%) | **(752)** | 3,837 |
| Tax effect of income not taxable for tax purpose | **(10)** | (8) |
| Tax effect of expenses not deductible for tax purpose | **4,257** | 959 |
| Tax effect of tax losses not recognised | **55** | – |
| Deferred withholding tax on distributable profits of a subsidiary | **–** | 1,000 |
| Overprovision in prior years | **(93)** | (73) |
| Tax expense for the year | **3,457** | 5,715 |

## 6. (LOSS) EARNINGS PER SHARE

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss) earnings: | | |
| (Loss) earnings for the year attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share | **(6,463)** | 9,631 |

| | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share | **689,315** | 600,000 |

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2017 has been taken into account the assumption that the capitalisation issue had been effective on 1 January 2016 and the issuance of shares upon initial public offering as described more fully in note 9.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2016 has been taken into account the assumption that the capitalisation issue had been effective on 1 January 2016 as described more fully in note 9.

No diluted earnings per share is presented for the years ended 31 December 2017 and 2016 as there were no potential ordinary share in issue.

## 7. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **20,382** | 17,991 |
| Less: allowance for doubtful debts | **(545)** | (218) |
| | **19,837** | 17,773 |
| Other receivables | **634** | 194 |
| Prepayments | **671** | 1,025 |
| Deferred listing expense | **–** | 792 |
| | **1,305** | 2,011 |

The Group allows credit periods ranging from 30 to 90 days to its trade customers. Before accepting any new customer, the Group makes enquiries to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customer are reviewed annually. The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 90 days | **17,466** | 16,181 |
| 91–180 days | **746** | 908 |
| 181–360 days | **1,117** | 684 |
| Over 360 days | **508** | – |
| | **19,837** | 17,773 |

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of approximately RMB3,975,000 (2016: approximately RMB3,061,000) respectively which are past due as at the end of reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collaterals over these balances.

Aging of trade receivables which are past due based on invoice date but not impaired:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Overdue: | | |
| Within 90 days | **2,112** | 2,223 |
| 91–180 days | **766** | 154 |
| 181–360 days | **589** | 684 |
| Over 360 days | **508** | – |
| | **3,975** | 3,061 |

Except for the trade receivables aged over 360 days of approximately RMB508,000 (2016: nil) which have been subsequently settled over 90% after the end of the reporting period, the Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are past due beyond 360 days are generally not recoverable.

**Movement in the allowance for doubtful debts**

| | 2017<br>*RMB'000* | 2016<br>*RMB'000* |
|---|---|---|
| Balance at beginning of the year | **218** | 77 |
| Impairment losses recognised on trade receivables | **327** | 141 |
| Balance at end of the year | **545** | 218 |

## 8. TRADE AND OTHER PAYABLES

| | 2017<br>*RMB'000* | 2016<br>*RMB'000* |
|---|---|---|
| Trade payables | **8,383** | 10,862 |
| Other payables | **3,213** | 2,252 |
| Other accrued expenses | **2,136** | 1,808 |
| | **5,349** | 4,060 |

The credit period on trade payables ranging from 30 to 90 days. The aging analysis of the Group's trade payables below is presented based on the invoice date at the end of the reporting period:

| | 2017<br>*RMB'000* | 2016<br>*RMB'000* |
|---|---|---|
| Within 90 days | **8,001** | 7,509 |
| 91–180 days | **259** | 2,342 |
| 181–360 days | **26** | 652 |
| Over 1 year | **97** | 359 |
| | **8,383** | 10,862 |

## 9. SHARE CAPITAL

| | Number of shares | *HK$* |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| **Authorised:** | | |
| At 22 January 2016 (date of incorporation) and 31 December 2016 | 38,000,000 | 380,000 |
| Increased in authorised share capital on 24 June 2017 | 1,962,000,000 | 19,620,000 |
| At 31 December 2017 | 2,000,000,000 | 20,000,000 |
| **Issued and fully paid:** | | |
| At 22 January 2016 (date of incorporation) and 31 December 2016 | 100 | 1 |
| Capitalisation issue *(note a)* | 599,999,900 | 5,999,999 |
| Issuance of shares *(note b)* | 200,000,000 | 2,000,000 |
| At 31 December 2017 | 800,000,000 | 8,000,000 |

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| Shown in the consolidated financial statements as | **6,890** | – |

*Notes:*

(a) On 21 July 2017, pursuant to the written resolution of the sole shareholder passed on 24 June 2017, the issue of 599,999,900 new Shares was made upon capitalisation of the amount of HK$5,999,999 standing to the credit of the share premium account of the Company.

(b) On 21 July 2017, the Company issued 200,000,000 new Shares at HK$0.3 per Share for a total gross proceeds of approximately HK$60,000,000 by way of share offer of the Company on GEM. The proceeds of HK$8,000,000, equivalent to approximately RMB6,890,000, representing the par value of the Shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$52,000,000, equivalent to approximately RMB44,785,000, before issuing expenses, were credited to share premium account of the Company. For further information in relation to the capitalisation issue and share offer, please refer to the section headed "History, Development and Reorganisation" of the prospectus of the Company dated 30 June 2017 (the "Prospectus").

## 10. OPERATING LEASE COMMITMENTS

**As lessee**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Minimum lease payments under operating leases during the year in respect of premises owed by | | |
| — related parties | **2,726** | 2,727 |
| — independent third party | **60** | 35 |
| | **2,786** | 2,762 |

At the end of 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory and office which fall due as follows:

| | **2017** | | |
|---|---|---|---|
| | **Premises owned by related party** | **Premises owned by independent third party** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Within one year | **2,726** | **30** | **2,756** |
| In the second to fifth year inclusive | **1,509** | **–** | **1,509** |
| | **4,235** | **30** | **4,265** |

At the end of 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory and office which fall due as follows:

| | 2016 | | |
|---|---|---|---|
| | Premises owned by related parties | Premises owned by independent third party | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 2,726 | 60 | 2,786 |
| In the second to fifth year inclusive | 4,235 | 30 | 4,265 |
| | 6,961 | 90 | 7,051 |

Operating lease payments represent rentals payable to related parties and independent third party by the Group for certain of its premises. Leases are negotiated for terms ranging from two to three years and rentals are fixed over the terms of the leases.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

The Group is an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. The Group mainly engages in the production of three types of products, which are (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). The Group also sources and sells other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products, to the customers of the Group in the PRC. The customers of the Group include (i) garment brand companies, (ii) sourcing companies designated by the garment brand companies and (iii) garment manufacturers in the PRC.

The successful Listing on 21 July 2017 (the "Listing Date") by way of share offer was a milestone for the Group in improving capital strength and corporate governance as well as enhancing its competitive edge.

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will continue to be affected by the development of the garment accessory market in the PRC as well as factors affecting the labour costs and material costs. The Directors are of the view that further development of garment market in the PRC, shortening of garment updating cycle and the multifunction of labels remains to be the key driver for the growth of the PRC garment accessories industry.

With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to pursue the following key business strategies: (i) further developing our garment accessory business by making use of additional financial resources available from the Listing on GEM on the Listing Date, which allows the Group to upgrade the production facilities and digital printing technology of the Group; (ii) developing the capability of applying RFID technology to the products of the Group; (iii) enhancing our heat transfer printing production facilities; (iv) upgrading the information technology systems and (v) expanding the sales and marketing department.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB102.8 million, a decrease of approximately 2.3% comparing with that of approximately RMB105.2 million for the year ended 31 December 2016. A breakdown on revenue of our Group by product types for 2016 and 2017 is summarised as below:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| **Product types** | **2017** | | 2016 | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Printed products | **47,461** | **46.2** | 51,400 | 48.9 |
| Woven labels | **26,190** | **25.5** | 28,395 | 27.0 |
| Printed labels | **23,847** | **23.2** | 19,741 | 18.8 |
| Others *(note)* | **5,309** | **5.1** | 5,663 | 5.3 |
| | **102,807** | **100.0** | 105,199 | 100.0 |

*Note:* Others include tapes, string locks, leather badge, buttons and metal products.

The revenue of printed products decreased by approximately 7.7% for the year ended 31 December 2017 as comparing with that of the previous year. The revenue of woven label decreased by approximately 7.8% for the year ended 31 December 2017 as compared to the previous year. The aforesaid decrease in revenue was principally due to the decrease in sales volume caused by the changes of product structure initiated by garment brand companies given the monthly average price of paper pulp increased from approximately RMB4,300/tonnes in 2016 to approximately 5,599/tonnes in 2017 according to the data from National Bureau of Statistics of the People's Republic of China. However, the revenue of printed label increased by approximately 20.8% for the year ended 31 December 2017 as comparing with that of previous year. The Group will put more resources to expand our sales of printed products and woven labels in order to enhance our profitability.

### Cost of Sales and gross profit

During the year ended 31 December 2017, the Group's gross profit decreased by approximately 9.1% from approximately RMB39.6 million for the year ended 31 December 2016 to approximately RMB36.0 million for the year ended 31 December 2017. The Group's cost of sales primarily consists of material costs, direct labour costs, subcontracting costs, rental and rates, depreciation on machinery and utilities. During the year ended 31 December 2017, despite decrease of revenue, the material costs increased by approximately RMB2.8 million principally due to the increase in unit price of material cost such as paper and yarn. As a result, the Group's gross profit margin decreased from approximately 37.7% for the year ended 31 December 2016 to approximately 35.1% for the year ended 31 December 2017.

**Administrative expenses**

Administrative expenses increased to approximately RMB23.2 million for the year ended 31 December 2017 from approximately RMB18.3 million for the year ended 31 December 2016, which was mainly due to increase in compliance costs incurred after the Listing and increase in administrative staff cost.

**Listing expenses**

During the year ended 31 December 2017, the Group recognised non-recurring listing expenses of approximately RMB11.0 million (31 December 2016: approximately RMB2.3 million) as expenses in connection with the Listing.

**Income Tax expense**

Income tax expense of the Group decreased from approximately RMB5.7 million for the year ended 31 December 2016 to approximately RMB3.5 million for the year ended 31 December 2017. The decrease was mainly due to the decrease in profit before tax, excluding the effect of non-deductible expenses, e.g. the listing expenses and non-chargeable other income items.

**Loss for the year**

As a result of the foregoing, the loss for the year ended 31 December 2017 amounted to approximately RMB6.5 million, which included the non-recurring listing expenses of approximately RMB11.0 million for the year ended 2017 (31 December 2016: approximately RMB2.3 million), comparing with profit of approximately RMB9.6 million for the year ended 31 December 2016.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had total assets of approximately RMB89.9 million (31 December 2016: approximately RMB67.4 million), which was financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately RMB15.4 million (2016: approximately RMB22.9 million) and approximately RMB74.5 million (31 December 2016: approximately RMB44.5 million), respectively.

The Group maintained sufficient working capital as at 31 December 2017 with bank balances and cash of approximately RMB44.6 million (31 December 2016: approximately RMB23.3 million). The Board of Directors will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

## GEARING RATIO

The gearing ratio of the Group as at 31 December 2017 was nil (31 December 2016: nil) as the Group had no outstanding loans and borrowings nor bank overdrafts as at 31 December 2017.

## TREASURY POLICIES

The Group has adopted a prudence financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. The Group strives to reduce exposure to credit risk by performance ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

## PLEDGE OF ASSETS

As at 31 December 2017, the Group did not pledge any assets (31 December 2016: nil) as securities for any facilities granted to the Group.

## FOREIGN EXCHANGE EXPOSURE

The business operations of the Group's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. As at 31 December 2017, the Group's cash and bank deposits, were denominated in RMB and HKD. Any significant exchange rate fluctuations of HKD against RMB as the functional currency may have a financial impact to the Group.

As at 31 December 2017, the Directors considered the Group's foreign exchange risk to be insignificant. During the year ended 31 December 2017, the Group did not use any financial instruments for hedging purposes.

## CAPITAL STRUCTURE

The Shares were successfully listed on GEM of the Stock Exchange on 21 July 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group comprises ordinary Shares only.

As at 31 December 2017, the Company's issued share capital was HK$8,000,000 and the number of its issued ordinary Shares was 800,000,000 of HK$0.01 each.

## DIVIDEND

The Directors declared and paid a special dividend of RMB7.1 million to the then sole shareholder, Neo Concept Holdings Limited ("Neo Concept"), before the Listing. Save as the said special dividend, no dividend was declared during the year ended 31 December 2017 (31 December 2016: nil).

## COMMITMENTS

The operating lease commitments of the Group were primarily related to the leases of its premises for factory and office. The Group's operating lease commitments amounted to approximately RMB4.3 million as at 31 December 2017 (31 December 2016: RMB7.1 million).

## SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 2 to the consolidated financial statements of this announcement.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and this announcement, the Group did not have any plan for material investments or capital assets as of 31 December 2017.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the financial year ended 31 December 2017, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (31 December 2016: nil).

## EMPLOYMENTS AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 328 employees (31 December 2016: 316 employees in mainland China and Hong Kong). The staff costs, including Directors' emoluments, of the Group were approximately RMB27.4 million for the year ended 31 December 2017 (31 December 2016: approximately RMB29.8 million). Directors' remuneration for the year ended 31 December 2017 amounted to approximately RMB2.6 million (31 December 2016: approximately RMB0.6 million) which included remuneration of the independent non-executive Directors for a total amount of approximately RMB0.2 million (31 December 2016: nil).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, discretionary bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual contribution.

## SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the year ended 31 December 2017.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 December 2017 is set out below:

| **Business objectives** | **Actual business progress up to 31 December 2017** |
|---|---|
| Upgrading production facilities and digital printing technology | The Group will upgrade the production, facilities and digital printing technology according to the implementation plan as set out in the Prospectus. |
| Developing the capability of applying RFID technology to our products | The Group will develop the capability of applying RFID technology to our products according to the implementation plan as set out in the Prospectus. |
| Enhancing the heat transfer printing production facilities | The Group has enhanced its heat transfer printing production facilities by acquiring certain relevant machines and hiring additional staff for heat transfer printing production. |
| Upgrading our information technology system | The Group will upgrade the information technology system according to the implementation plan as set out in the Prospectus. |
| Expanding our sales and marketing department | The Group will expand our sales and marketing departments according to the implementation plan as set out in the Prospectus. |

## USE OF PROCEEDS

The net proceeds from the Listing, after deducting listing-related expenses, were approximately HK$37.6 million. After the Listing, a part of these proceeds have been applied for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

An analysis of the planned usage of net proceeds up to 31 December 2017 as stated in the Prospectus and the actual utilisation of the net proceeds from the Listing and up to 31 December 2017 is set out below:

| | **Planned use of net proceeds as stated in the Prospectus up to 31 December 2017** *HK$' million* | **Actual use of net proceeds up to 31 December 2017** *HK$' million* |
|---|---|---|
| Enhancing the heat transfer printing production facilities | 3.0 | 3.0 |

The remaining unused net proceeds of approximately HK$34.6 million will be applied according to the implementation plan as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

All the unutilised balances have been placed in licensed banks in Hong Kong or China as at 31 December 2017.

## CORPORATE GOVERNANCE CODE

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the year ended 31 December 2017, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

## CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding securities transactions by the Directors as the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the "Model Code"). The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Model Code by the Directors during the year ended 31 December 2017.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 24 June 2017 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code. The Audit Committee consists of three members, namely Mr. Ho Yuk Hay, Mr. Moy Yee Wo, Matthew and Mrs. So Chan Wai Hang, all being independent non-executive Directors. Mr. Ho Yuk Hay currently serves as the chairman of the Audit Committee, who has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically. The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2017.

## DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: nil).

## COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2017.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this annual report, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2017 and up to the date of this annual report.

## ANNUAL GENERAL MEETING

The annual general meeting ("**AGM**") of the Company will be held on Friday 4 May 2018, the notice of which shall be published and sent to shareholders of the Company in accordance with the articles of association of the Company, the GEM Listing Rules and other applicable laws and regulations.

## CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Monday, 30 April 2018 to Friday, 4 May 2018, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholder of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 April 2018.

## AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at the 2018 AGM. A resolution for their re-appointment as the auditor of the Company will be proposed at the 2018 AGM.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.sthl.com.hk and the GEM's website at www.hkgem.com. The 2017 annual report of the Company will be despatched to the shareholders of the Company and available on the above websites according to the Listing Rules.

By order of the Board
**Reach New Holdings Limited**
**Chan Fei Fei**
*Company Secretary*

Hong Kong, 23 March 2018

*As at the date of this announcement, the chairman and non-executive Director is Mr. Lam Cheung Chuen; the executive Directors are Mr. Lam Kai Yuen and Mr. Lam Kai Cheong; and the independent non-executive Directors are Mrs. So Chan Wai Hang, Mr. Ho Yuk Hay and Mr. Moy Yee Wo, Matthew.*

*This announcement will remain on the GEM's website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.sthl.com.hk*