

HINGTEX HOLDINGS LIMITED 興紡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1968

ANNUAL REPORT
2018

The background of the cover features a large, abstract design composed of numerous blue dots of varying sizes, arranged in a pattern that suggests a circular or spherical shape. This pattern is overlaid with a horizontal band of teal and blue circular shapes, some of which are filled with a textured, fabric-like pattern. The overall color palette is dominated by shades of blue and teal.

CONTENTS

2	Chairman's Statement
4	Management Discussion and Analysis
6	Directors and Senior Management
8	Report of the Directors
23	Corporate Governance Report
33	Independent Auditor's Report
38	Consolidated Statement of Profit or Loss and Other Comprehensive Income
39	Consolidated Statement of Financial Position
41	Consolidated Statement of Changes in Equity
42	Consolidated Statement of Cash Flows
44	Notes to the Consolidated Financial Statements
120	Financial Summary
121	Corporate Information

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present the operating results for the year ended 31 December 2018 (the "year").

Over the past year, the pace of global economic growth has slowed as trade momentum subsequently weakened due to trade tariffs imposed by major economies, in particular between the People's Republic of China (the "PRC") and the United States (the "U.S."), which had strongly impacted our customers who are mostly brand owners in the U.S. (the "Brand Owners"). Although Hingtex continued to enjoy strong demand from the denim fabric market during the year, our customers had postponed shipments of fulfilled orders from the year 2018 to the first half of 2019 as they were finding suitable replacement garment factories outside of the PRC to avoid possible additional trade tariffs. As a result, the Group's business performance was impacted indirectly due to the Sino-U.S. trade war.

Nonetheless, the Group has performed stably during the year with revenue amounting to HK\$640.7 million (2017: HK\$648.2 million) and gross profit totalling HK\$200.6 million (2017: HK\$212.8 million). Profit after taxation was HK\$72.8 million (2017: HK\$126.5 million). After taking into account the one-off listing expenses, the Group was able to achieve adjusted net profit of HK\$90.1 million (excluding listing expenses of approximately HK\$17.3 million) (2017: HK\$109.5 million excluding listing expenses of approximately HK\$5.3 million, gain on disposals of property, plant and equipment of HK\$1.9 million and imputed interest income on amounts due from related companies of HK\$20.4 million). The decrease in profit after taxation is mainly due to the postponement of product shipments by our customers in response to the then increasing tension between the PRC and the U.S. during the second half of 2018, as well as the unanticipated unfavourable price fluctuation of cotton yarns, other raw materials and labour costs in the same period.

During the year, average selling price of stretchable blended denim fabrics increased by 7.2% to HK\$25.3 per yard (2017: HK\$23.6 per yard). Hence, despite a 8.8% decrease in overall sales quantity to 24.9 million yards (2017: 27.3 million yards), the Group managed to achieve similar annual revenue as in year 2017.

DIVIDENDS

The Board has proposed the payment of a final dividend of HK2 cents per ordinary share for the year ended 31 December 2018.

BUSINESS REVIEW

During the year, the Group has continued to specialise in the manufacturing of stretchable denim fabrics with various properties. Sales of stretchable blended denim fabrics accounted for approximately 85.2% of total revenue (2017: 80.1%). This aligns with the rising growth trend and demand for denim garments with stretchable fabric properties, in particular the rising popularity of stretchable denim clothing with various functionalities for men.

Although demand for denim fabric in the U.S. was strong in 2018, the Group suffered indirectly from the Sino-U.S. trade war which resulted in a 1.71% decrease in sales quantity of stretchable blended denim fabrics. However, the Group managed to increase the selling price in light of enhancing product features and rising costs, which led to an increase of HK\$26.8 million in revenue, thus raising total sales of stretchable blended denim fabrics to HK\$546.1 million for year 2018 (2017: HK\$519.3 million).

The Group reckons that there continues to be room for growth in the U.S. market. In late 2018, we received new orders from a returning Brand Owner, which is a renowned worldwide clothing and accessories retailer based in the U.S.

PROSPECTS

Though the Sino-U.S. trade war has led to instability in the global economy, we remain cautiously optimistic about the denim industry as well as the associated retail segment. The Sino-U.S. trade war has become less intense since the first quarter of 2019, which is a good start for 2019. Since the beginning of 2019 to this date, we have dispatched over 2 million yards of denim fabric to our customers which were originally scheduled for delivery in 2018. In response to the fluctuations in manufacturing costs, the Group will continue to strive for more competitive price and balance the burden with our customers to maintain our profit margin. We will closely monitor market changes and manage risks so that we can take pre-emptive measures against anticipated challenges.

Develop Wider Range of Fabrics and Increase Production Capacity

As one of the largest middle- to high-end denim fabric manufacturers in the PRC, we strive to differentiate ourselves from our peers by developing and adopting new, innovative and sustainable materials. We consider incorporating more natural fibres in our products to promote sustainability. We will continue to innovate and dedicate more resources to bolster the Group's R&D capabilities in developing denim fabric so as to remain competitive and stay ahead of the denim manufacturing industry. The Group's plant enhancement plans are also on schedule, with the first batch of equipment ready to commence operation by end of 2019 and the refurbishment process to be completed by early 2021.

Bolster Ties with Brand Owners and Further Penetrate European and PRC Markets

We will look to bolster ties with Brand Owners by providing them superior products that help them to stay ahead of their peers. We will also work with them in seeking garment factories outside the PRC should the Sino-U.S. trade war turn for the worse, which also helps to mitigate potential impact on the Group.

On top of that, we continue to examine opportunities for making inroads in Europe and the PRC. Towards this goal, we have established cooperative arrangements with COTTON USA™ and Mr. CHEN Wen (陳聞), a prominent denim designer in the PRC to organise a denim fashion show in Beijing, China under the theme "COTTON USA: Passion for Dream in late March 2019.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all of our business partners, customers and stakeholders for their unwavering support. The Board, management and staff must also be praised for their perseverance, diligence and decisiveness; enabling us to achieve a stable results during the past year.

TUNG Tsun Hong

Chairman and executive Director

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of our Company (the “Shares”) were listed on the Stock Exchange on 16 July 2018 (the “Listing Date”), raising total net proceeds of approximately HK\$147.0 million after deducting professional fees, underwriting commissions and other related listing expenses.

Since the Listing Date and as of 31 December 2018, the net proceeds have been placed with banks in Hong Kong. The Group intends to apply the proceeds in the same manner and proportions set out in the section headed “Future Plans and Use of Proceeds” in the prospectus dated 28 June 2018 (the “Prospectus”).

FINANCIAL REVIEW

As at 31 December 2018, bank balances and cash increased by HK\$31.1 million to HK\$185.1 million (2017: HK\$154.0 million), primarily due to the net proceeds from issue of new ordinary shares upon listing of HK\$147.0 million, as offset by the declaration of a special dividend amounting to HK\$100.0 million and the net decrease in working capital of HK\$28.9 million. Inventories increased by HK\$51.6 million to HK\$264.1 million (2017: HK\$212.5 million) as a result of a general increase in the cost of raw materials as well as the postponement of product shipments by our customers due to the intensified Sino-U.S. trade war situation during the second half of 2018. Trade and bills receivables remained stable at HK\$47.8 million (2017: HK\$45.9 million). Current liabilities decreased by HK\$73.4 million to HK\$231.8 million (2017: HK\$305.2 million) mainly due to less purchases made close to 2018 year end when compared with 2017 and tax payments of HK\$41.5 million.

CAPITAL COMMITMENT

As at 31 December 2018, the Group had no capital commitment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations primarily with internally generated funds from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital to meet its present funding requirements.

As at 31 December 2018, net current assets were approximately HK\$311.4 million (2017: HK\$148.4 million). Bank balances and cash and restricted bank deposits as at 31 December 2018 were approximately HK\$189.2 million (2017: HK\$173.4 million).

As at 31 December 2018, there were bank borrowings of approximately HK\$108.0 million (2017: HK\$80.6 million), and the Group has HK\$188.3 million in available banking facilities as at 31 December 2018 (2017: HK\$131.8 million).

GEARING RATIO

As at 31 December 2018, the gearing ratio of the Group, based on total borrowings (including bank borrowings and obligations under finance leases) to total equity (including all capital and reserves) of the Group, was 26.5% (2017: 28.6%).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 458 employees (2017: 467 employees). The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. Remuneration packages offered to the Group's employees are consistent with prevailing levels and are reviewed on a regular basis. Discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and that of the individual employee. The Group provides training to employees. In the year ended 31 December 2018, the Group had not encountered any significant problems with its employees, nor had there been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff.

CAPITAL EXPENDITURE

The Group's capital expenditure was HK\$14.1 million during the year (2017: HK\$43.1 million), which was mainly due to the capital investments in the Group's property, plant and equipment.

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. As at 31 December 2018, the Group's bank borrowings carried variable rates from 1.6% to 3.7% per annum (2017: 1.3% to 2.4%). The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK\$21.7 million, of which HK\$20.5 million had been utilised by the related party. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound. The financial guarantees have been released during the year.

As at 31 December 2018, the Group had no material contingent liability.

PLEDGE OF ASSETS

As at 31 December 2018, the Group's obligations under finance leases were secured by its property, plant and equipment with carrying value of approximately HK\$7.3 million (2017: property, plant and equipment, structured bank deposits and restricted bank deposits of approximately HK\$32.0 million).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tung Tsun Hong (董信康先生), aged 78, the founder of the Group, the chairman of the Board, an executive Director and one of the controlling shareholders. Mr. TH Tung joined the Group on 16 January 1981. Mr. TH Tung has approximately 60 years of experience in the textile and apparel industry. He is primarily responsible for overseeing the Group's overall development strategy. He is the father of Mr. Stephen Tung and Mr. Stanley Tung, both being executive Directors.

Mr. Tung Wai Ting Stephen (董韋霆先生) (formerly known as Mr. Tung Hak Ming Stephen (董克明先生)), aged 49, the chief executive officer, an executive Director and one of the controlling shareholders. Mr. Stephen Tung joined the Group on 6 October 1995. Mr. Stephen Tung obtained a Bachelor of Commerce degree at the University of Toronto in Canada in June 1993, and has approximately 23 years of experience in the textile and apparel industry. He is primarily responsible for administration, finance and production of the Group. Mr. Stephen Tung is the son of Mr. TH Tung, and brother of Mr. Stanley Tung, both being executive Directors.

Mr. Tung Cheuk Ming Stanley (董卓明先生), aged 45, the sales director, an executive Director and one of the controlling shareholders. Mr. Stanley Tung joined the Group on 1 April 1997. Mr. Stanley Tung obtained a Bachelor of Arts degree from University of Toronto in Canada in November 1996, and has approximately 22 years of experience in the textile and apparel industry. He is primarily responsible for the sales and marketing of the Group. Furthermore, he has been assisting our product development by participating in international fabric exhibitions and fashion shows in various countries including the PRC and the United States. He is the son of Mr. TH Tung, and brother of Mr. Stephen Tung, both being executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu Gilbert (曾令鏢先生), aged 48, an independent non-executive Director. Mr. Tsang joined the Group on 19 June 2018. He is primarily responsible for supervising and providing independent advice to the Board. He is also the chairman of our audit committee. Mr. Tsang has over 21 years of experience in finance and accounting. Mr. Tsang obtained a Master of Commerce in Accounting and Finance from the University of New South Wales in Australia in 1995, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia in 1996. Mr. Tsang is also a fellow member of the CPA Australia (Certified Practising Accountants).

Mr. Tsang is a non-executive director of Tus International Limited (stock code: 872), a Hong Kong-based investment holding company principally engaged in the trading of cars.

Mr. Cheung Che Kit Richard (張之傑先生), aged 47, an independent non-executive Director. Mr. Cheung joined the Group on 19 June 2018. He is primarily responsible for supervising and providing independent advice to our Board. He is also a member of our audit committee, remuneration committee and nomination committee. Mr. Cheung obtained a Bachelor of Commerce degree with first class honour from Queen's University in Canada in May 1995. Subsequently he obtained his Master's degree in Business Administration with high distinction from Harvard Business School in the United States in June 2001. Since 2010, Mr. Cheung has been working as an executive director (Customer and International Business Development) for the Hong Kong Jockey Club. He is responsible for channeling gaming demand in all of racing, football and lottery wagering business, which also includes the exporting of the Hong Kong racing betting product to overseas jurisdictions.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生), aged 40, an independent non-executive Director. Mr. Leung joined the Group on 19 June 2018. He is primarily responsible for supervising and providing independent advice to our Board. He is also the chairman of our remuneration committee and nomination committee, and a member of our audit committee. Mr. Leung obtained a Master of Arts degree in Economics from the University of Cambridge in the United Kingdom in March 2003, and has approximately 19 years of experience in the textile and apparel industry.

Mr. Leung has been serving the community and the textile industry by holding various positions in a number of institutions and organisations. From April 2017 to March 2018, Mr. Leung was a member of the Textile Advisory Board. He has been a member of the Committee of Beijing Chinese People's Political Consultative Conference (with a term of five years), the chairman of the Third Committee of Youth of the Business and Professionals Alliance for Hong Kong since 2013 and 2016, respectively.

SENIOR MANAGEMENT

Ms. Poon Yuet Ling (潘月玲女士), aged 59, joined the Group on 5 August 1986 and is currently the senior accounting manager. Ms. Poon is primarily responsible for overseeing daily accounting operation, financial management, administration and human resource management of the Group. Ms. Poon completed her secondary education in Hong Kong in July 1977 and obtained an intermediate group certificate in business studies at the Hong Kong School of Commerce in February 1978. She has over 30 years of experience in accounting practise.

Mr. Tung Ming Po (董鳴寶先生), aged 72, is currently our assistant general manager. Mr. MP Tung is primarily responsible for administering and coordinating the manufacturing process of the Group. Prior to joining the Group, Mr. MP Tung worked in the same shipping agency for over 20 years, with his last position being the manager of the licenced crew department. As the manager, he was in charge of the manning of crew and officers such as recruitment, deployment and relief planning. Mr. Tung moved to Australia in December 1989 and returned to Hong Kong in September 1992, and joined the Group in October 1992.

Mr. Woo Chi Yuen Eric (胡志遠先生), aged 50, joined the Group on 16 March 2000 and is currently our senior fabric manager of our production department. Mr. Woo completed the master of business administration program at the University of Leicester, United Kingdom in July 2005, and has approximately 31 years of experience in the textile industry. He is primarily responsible for administering and coordinating the manufacturing process of the Group.

Mr. Li Chi Hiu Lawrence (李之曉先生), aged 44, joined the Group on 1 July 2004 and is currently our sales manager. Mr. Li is primarily responsible for overseeing the sales management of the Group. Mr. Li graduated from the Seneca College of Applied Arts & Technology in Toronto, Canada in April 1997, and has more than 18 years of experience in the textile industry. Prior to joining our Group in 2005, Mr. Li was the project manager in Tiong Liong Industrial Company, a company based in Taiwan which manufactures and supplies functional textiles.

Mr. Cheung Ka Chun (張家俊先生), aged 36, was appointed as the chief financial officer and the company secretary of our Company on 16 January 2018 and is primarily responsible for (i) overseeing the financial and accounting functions of our Group and (ii) handling corporate secretarial and compliance work of our Group. Mr. Cheung has over 10 years of experience in audit and assurance and multi-national certified public accounting firms. Mr. Cheung was awarded the bachelor's degree of Business Administration (majoring in accounting and finance) by the University of Hong Kong in December 2004. He is a member of the Hong Kong Institute of Certified Public Accountants.



REPORT OF THE DIRECTORS

The Board is pleased to submit this annual report together with the consolidated financial statements for the year ended 31 December 2018 (the “year”), which have been audited by the Company’s auditors Deloitte Touche Tohmatsu, Certified Public Accountants and reviewed by the audit committee of the Company (the “Audit Committee”).

PRINCIPAL PLACE OF BUSINESS

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the manufacturing and sales of denim fabric.

BUSINESS REVIEW

For the business review of the Group for the year, please refer to the paragraph headed “Business Review” in the Chairman’s Statement.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated financial statements of profit or loss and other comprehensive income on page 38.

The state of the Group’s affair as at 31 December 2018 is set out in the consolidated statement of financial position on pages 39 to 40.

The Board proposed to declare a final dividend of HK2 cents per share for the year, which shall be subject to approval of the shareholders at the AGM of the Company to be held on 28 May 2019. The proposed final dividend is expected to be paid on 13 June 2019.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$1,209,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity on page 41.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2018, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$142,994,000.

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.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Tung Tsun Hong (Chairman)
Mr. Tung Wai Ting Stephen
Mr. Tung Cheuk Ming Stanley

Independent Non-executive Directors

Mr. Tsang Ling Bin Gilbert
Mr. Cheung Che Kit Richard
Mr. Leung Wang Ching Clarence, J.P.

REPORT OF THE DIRECTORS (CONTINUED)

The Directors will retire by rotation in accordance with the requirement of the articles of association of the Company and the Listing Rules. The independent non-executive Directors are appointed for periods of three years.

The Company has received from the independent non-executive Directors a confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

PERMITTED INDEMNITY PROVISIONS

During the year, appropriate insurance covering for the Directors' and senior management's liabilities arising out of activities of the Group has been arranged by the Company. As of the date of this annual report, such insurance covering remained effective.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("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/or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the model code for securities transactions by Directors of listed issuers (the "Model Code"), are as follows:

(a) Interests and/or short positions in our Company

Director	Nature of interest	Number of Shares held ¹	Percentage of Interest in our Company
Mr. TH Tung	Interest in controlled corporation ²	480,000,000 (L)	75%
Mr. Stephen Tung	Interest in controlled corporation ²	480,000,000 (L)	75%
Mr. Stanley Tung	Interest in controlled corporation ²	480,000,000 (L)	75%

Notes:

1. The letter "L" denotes a long position in the Shares.
2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

(b) Interests and/or short positions in associated corporation(s)

Director	Company concerned	Nature of interests	Number of shares held in the company concerned ¹	Percentage of interest in the company concerned
Mr. TH Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%
Mr. Stephen Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%
Mr. Stanley Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100 (L)	100%

Notes:

1. The letter "L" denotes long position in the shares held.
2. Manford Investment is interested in 75% of the issued Shares immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) and, accordingly, is the holding company of our Company within the meaning of the SFO.
3. Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors nor the chief executive of our Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (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/or short positions which he/she is 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS (CONTINUED)

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, so far as the Directors were aware, the following persons had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Shares ⁽¹⁾	Percentage shareholding
Manford Investment ⁽²⁾	Beneficial owner	480,000,000 (L)	75%
Mr. TH Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Stephen Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Stanley Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Ms. Li Ka Mei	Interest of spouse ⁽⁴⁾	480,000,000 (L)	75%
Mrs. Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Ms. Barbara Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Li Chi Hiu Lawrence	Interest of spouse ⁽⁵⁾	480,000,000 (L)	75%
Ms. Mabel Tung	Interest of controlled corporation ⁽³⁾	480,000,000 (L)	75%
Mr. Fung Cheong Chi	Interest of spouse ⁽⁶⁾	480,000,000 (L)	75%

Notes:

1. The letter "L" denotes a long position in the Shares.
2. As at the date of this report, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.
3. Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

REPORT OF THE DIRECTORS (CONTINUED)

4. Ms. Li Ka Mei is the spouse of Mr. Stanley Tung and is deemed, under the SFO, to be interested in all the Shares that Mr. Stanley Tung is interested.
5. Mr. Li Chi Hiu Lawrence is the spouse of Ms. Barbara Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Barbara Tung is interested.
6. Mr. Fung Cheong Chi is the spouse of Ms. Mabel Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Mabel Tung is interested.

Save as disclosed above, as at the date of this report, our Directors are not aware of any person who had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the Senior Management are set out on pages 6 to 7.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally adopted by the written resolutions of the Company's then sole shareholder passed on 19 June 2018. As of the date of this report, no option has been granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme.

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants (the "Eligible Participants") as incentives or rewards for their contribution to the Group.

REPORT OF THE DIRECTORS (CONTINUED)

Participants of the Share Option Scheme

The Board may, at its discretion, offer to grant an option to the following Eligible Participants:

- (i) any employee (whether full time or part time) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the “Invested Entity”);
- (ii) any Directors (including independent non-executive Directors) of the Company, any subsidiary or any Invested Entity;
- (iii) any suppliers of goods and services to any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group

and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly-owned by one or more Eligible Participants.

Shares available for issuance

The maximum number of the Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at Listing Date, being 64,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may renew this limit at any time to 10% of the number of Shares in issue as at the date of the approval by the Shareholders in general meeting and/or grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The above is subject to the condition that the maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the number of Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded.

As at 28 March 2019, being the date of this report, the outstanding number of share options available for grant under the Scheme is 64,000,000 share options to subscribe for the Shares, representing 10% of the issued share capital of the Company.

Maximum entitlement of each eligible participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular, the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules.

Time for exercising option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

Payment on acceptance of the option

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance or payment in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Basis of determining exercise price of the option

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sub-section headed "Connected Transactions" below and "Related Party Transactions" in note 36 to the consolidated financial statements, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected Transactions" below and "Related Party Transactions" in note 36 to the consolidated financial statements, no controlling shareholder or any of their respective subsidiaries had a material interest, either directly or indirectly, in any contract of significance to the business of the Group, to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a part, during the year.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries was made.

DIRECTORS' SERVICE CONTRACTS

The shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date.

Each of our executive Directors has entered into a service agreement with the Company under which they have agreed to act as our executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months' written notice to terminate the service agreement.

Each of our independent non-executive Directors has entered into an appointment letter with the Company under which each of them has agreed to act as independent non-executive Director for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than one month's written notice to terminate the service agreement.

Save as disclosed above, none of the Directors has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

The emoluments of the Directors and senior management of the Group are determined by the Remuneration Committee with reference to their relevant qualifications, experience, competence and the prevailing market conditions. None of the Directors waived or agreed to waive any emoluments during the year ended 31 December 2018.

Details of the Directors' remuneration of the Group as at the date of this annual report are set out in note 11 to the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the period from the Listing Date to the date of this annual report.

CORPORATE GOVERNANCE CODE

The Company has applied and complied with all code provisions of the Corporate Governance Code Contained in Appendix 14 (the "CG Code") for the period from the Listing Date to the date of this annual report. The CG Code is not applicable to the Company before the Listing Date. For details, please refer to the Corporate Governance Report on page 23 of this annual report.

AUDIT COMMITTEE

The Company has established the Audit Committee. For details, please refer to the paragraph headed "Audit Committee" of the Corporate Governance Report set out on page 27 of this annual report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND SUB-CONTRACTORS

The Group emphasises the importance of personal development of individual employees. The Group has in place remuneration policies to ensure providing adequate rewards to employees with recognised experience for the assigned roles and duties. The Group also provides other benefits including bonuses and shares as incentives.

The Group places high priority on maintaining good relationship with our customers. The Group always strives to maximize customers satisfaction and to add value for our customers. The Group identifies areas for improvement. Customer's complaints once acknowledged and reported will be dealt with timely, fairly and diligently.

The Group also values relationships with, and have been maintaining good relationships with its raw material suppliers and sub-contractors of the Group. During the year, there were no material dispute between the Group and its suppliers and sub-contractors.

REPORT OF THE DIRECTORS (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the year is as follows:

The largest customer/supplier	13.4%/33.0%
Five largest customers/suppliers in aggregate	50.7%/80.6%

At no time during the year had the Directors, their associates or any shareholder of the Company which to the best knowledge of the Directors owns more than 5% of the Company's share capital had any interest in these major customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's denim fabric production may generate air pollutants, waste water and other industrial waste at different stages of the production process. To ensure compliance with the applicable PRC environmental protection laws and regulations, the Group has implemented the following environmental protection measures:

- Improved weaving productivity — During the year, we have improved over 50% of our weaving units which may produce over 15% more denim fabric with the same level of energy consumption.
- Thermal energy — The Group has been closely working with Zhongshan local authority, and targets to shift from the use of coal boilers to the use of thermal energy for steam to power our plants in second half of 2019.
- New resources-efficient equipment — Following our proceed utilisation plan, the Group will replace part of existing equipment to newer models which will be more resources-efficient.

The Group will continue to explore methods to, while maintaining its production capability, improve the environment by reducing the waste water and air pollutants, consumption of fossil fuels and emission of carbon dioxide.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the PRC. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong and the PRC. During the year and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in Hong Kong and the PRC in all material aspects.

Details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group will be provided in our environmental, social and governance report to be published on the websites of the Stock Exchange and the Company (www.hwttextiles.com.hk) no later than three months after the publication of the Company's annual report.

CONNECTED TRANSACTIONS

Details of the Group's related party transactions for the year are set out in note 36 to the consolidated financial statements, some of which also constituted connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of the above-mentioned transactions. The following transactions entered into by members of the Group constituted continuing connected transactions of the Company subject to announcements and reporting requirements but exempt from shareholders' approval under Chapter 14A of the Listing Rules by reason of any of the applicable percentage ratios (other than the profits ratio) being less than 5% on an annual basis and the annual cap amount exceeding HK\$3,000,000:

Tenancy agreements with Star Alliance Holdings Limited ("Star Alliance") and Hing Tak Weaving Factory Limited ("Hing Tak (HK)")

Pursuant to tenancy agreements dated 1 January 2017 (as amended and supplemented by (i) a supplemental deed dated 16 March 2018 and (ii) a supplemental agreement dated 16 April 2018), Star Alliance leased to the Group properties located at unit A6 on the 30th floor and the 31st floor of TML Tower with car parking spaces no. 09 and 10 on the 2nd floor and car parking spaces no. 45, 54, 55 and 56 on the 3rd floor in Tsuen Wan, Hong Kong (the "Properties A"). The term for the existing tenancy agreements in respect of the Properties A commenced from 1 January 2017, and will expire on 31 December 2020 at the aggregate monthly rents of HK\$248,348 exclusive of rates, air-conditioning, management charges and other outgoings.

Pursuant to a tenancy agreement dated 31 July 2017 (as amended and supplemented by (i) a supplemental agreement dated 31 December 2017 and (ii) a supplemental deed dated 16 March 2018), Star Alliance further leased to the Group a property located at unit B6 on the 31st floor of TML Tower in Tsuen Wan, Hong Kong (the "Property B"). The term for the existing tenancy agreement in respect of the Property B commenced from 1 August 2017, and will expire on 31 July 2020 at a monthly rent of HK\$70,958 exclusive of rates, air-conditioning, management charges and other outgoings.

Pursuant to a tenancy agreement dated 1 January 2017 (as amended and supplemented by a supplemental deed dated 16 April 2018), Hing Tak (HK) leased to the Group a property located at unit D on 11th floor of Jing Ho Industrial Building in Tsuen Wan, Hong Kong (the "Property C"). The term for the existing tenancy agreement in respect of the Property C commenced from 1 January 2017, and was early terminated on 31 July 2018 at a monthly rent of HK\$18,596 exclusive of rates, air-conditioning, management charges and other outgoings.

As at 31 December 2018, Star Alliance is owned as to 25% each by Mr. Tung Tsun Hong (chairman and executive Director), Mr. Tung Wai Ting Stephen (chief executive officer and executive Director), Mr. Tung Cheuk Ming Stanley (executive Director) and Ms. Lau Chung Chau (spouse of Mr. Tung Tsun Hong and mother of Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley). Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen, Mr. Tung Cheuk Ming Stanley and Ms. Lau Chung Chau are also controlling shareholders of the Company. Therefore, Star Alliance is a connected person of the Company.

As at 31 December 2018, Hing Tak (HK) is owned as to 30% by Mr. Tung Tsun Hong (chairman and executive Director), 20% by Mr. Tung Wai Ting Stephen (chief executive officer and executive Director), 20% by Mr. Tung Cheuk Ming Stanley (executive Director), 10% by Ms. Lau Chung Chau (spouse of Mr. Tung Tsun Hong and mother of Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley), 10% each by Ms. Tung Wei Ling Barbara and Ms. Tung Wai Lai Mabel (each a daughter of Mr. Tung Tsun Hong and a sister of Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley). Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen, Mr. Tung Cheuk Ming Stanley, Ms. Lau Chung Chau, Ms. Tung Wei Ling Barbara and Ms. Tung Wai Lai Mabel are also controlling shareholders of the Company. Therefore, Hing Tak (HK) is a connected person of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

During the year, total rental paid or payable by the Group under the tenancy agreements with Star Alliance and Hing Tak (HK) amounted to HK\$3,961,844 which did not exceed the annual caps for these transactions of HK\$4,055,000.

REVIEW BY INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE AUDITORS OF THE COMPANY

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 19 and 20 of this annual report in accordance with Rule 14A.56 of the Listing Rules, confirming that nothing has come to their attention that causes them to believe that the continuing connected transaction set out above:

- (i) has not been approved by the Board;
- (ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) have exceeded the annual caps as set by the Company with respect to the aggregate amount of each of the continuing connected transactions set out above.

DEED OF NON-COMPETITION

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the terms and undertakings of the deed of non-competition provided to the Company under the Deed of Non-competition (as defined in the Company's prospectus dated 28 June 2018). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the terms and undertakings under the Deed of Non-competition have been complied with by the controlling shareholders.

SUMMARY OF FINANCIAL INFORMATION

A financial information summary of the Group is set out on page 120 of this annual report.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Save as disclosed in this annual report, the Group did not have any significant investment or material acquisition or disposal of subsidiaries and affiliated companies during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the period from the Listing Date to the date of this annual report, none of the Directors is or was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules.

EQUITY-LINKED AGREEMENT

No equity-linked agreement that would or might result in the Company issuing shares, or that requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year or subsisted at the end of year.

MANAGEMENT CONTRACTS

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

SUBSEQUENT EVENT

The Board is not aware of any significant event affecting the Group and requiring disclosure that took place subsequent to 31 December 2018 up to the date of this report.



REPORT OF THE DIRECTORS (CONTINUED)

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, for the period from the Listing Date to the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITORS

The consolidated financial statements for the year were audited by Deloitte Touche Tohmatsu, Certified Public Accountants who will retire at the conclusion of the forthcoming AGM of the Company and, being eligible, will offer themselves for re-appointment.

On behalf of the Board

TUNG Tsun Hong

Chairman and executive Director

Hong Kong, 28 March 2019

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance. The Company acknowledges the important role of the Board in providing effective leadership and direction to the Company's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company is committed to maintaining high standards of corporate governance in the interests of shareholders. The Company has complied with all code provisions of the CG Code of the Listing Rules for the period from the Listing Date to 31 December 2018.

THE BOARD

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in attaining the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group's business to the management. The Board exercises a number of powers which include:

- formulating long-term strategy
- approving public announcements
- approving financial statements, including interim and annual results
- approving major acquisitions, disposal and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue or buy-back of equity securities under the relevant general mandates
- making recommendations and/or declaration of dividend and reviewing dividend policy
- approving appointments to the Board
- setting the Group remuneration policy
- reviewing operational and financial performance
- reviewing the effectiveness of internal control

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board meets at least four times a year and additional meetings are held when required to discuss significant events and issues. The Company Secretary assists the chairman of the Board in preparing agenda for Board meetings. Board meetings are held with at least 14 days' advance notice, and all Directors would be served with an agenda with supporting papers at least three days before the Board meetings, so as to ensure that there is timely access to relevant information. The Group ensures that all the Board members are informed of the Group's latest developments and thereby assists them in the discharge of their duties. The Directors may take independent professional advice as and when appropriate, at the Company's expenses. Minutes of the Board and Board committees are taken by the Company Secretary. Such minutes of the Board and the Board committees, together with supporting papers, are made available for inspection by any Director following reasonable notice. Draft and final versions of minutes are sent to all Directors for their comment and records.

The Company has arranged directors and officers liability and company reimbursement insurances for the Directors and senior management of the Company.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors take decisions objectively in the best interests of the Company.

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

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

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

CORPORATE GOVERNANCE FUNCTIONS

The Board has developed and reviewed the Company's policies and practices on corporate governance. It includes the review and monitor of the training and continuous professional development of the Directors and the senior management of the Group; the Company's policies and practices on compliance with legal and regulatory requirements; the development, review and monitoring of the code of conduct of the Company's employees and Directors; and review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

COMPOSITION OF THE BOARD

The Board currently comprises three executive Directors (Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley) and three independent non-executive Directors (Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.). Among the executive Directors, Mr. Tung Wai Ting Stephen is the elder brother of Mr. Tung Cheuk Ming Stanley, and they are both sons of Mr. Tung Tsun Hong. Biographical details of the Directors of the Group as at the date of this annual report are set out on pages 6 to 7 of this annual report. Independent non-executive Directors account for more than one-third of the members of the Board. The independent non-executive Directors come either from the textile industry or have related professional background, bringing valuable expertise and experience that promotes the best interests of the Group and its shareholders. The role of the independent non-executive Directors is to provide independent and objective opinions to the Board for its consideration.

Chairman and the Chief Executive Officer

The chairman of the Board and the Chief Executive Officer are Mr. Tung Tsun Hong and Mr. Tung Wai Ting Stephen, respectively. Responsibilities between the chairman of the Board and the chief executive officer of the Company are clearly divided and segregated to ensure a balance of power and authority and to reinforce their independence and accountability.

BOARD MEETINGS

During the year, the Board has held a total of four Board meetings for the main purposes of formulating business development and prospects of the Group, reviewing and considering the financial and operating performance.

The attendance of each Director at the Board meetings is set out below:

Name of Directors	Attendance/ Number of Board Meetings
Executive Directors	
Mr. Tung Tsun Hong	4/4
Mr. Tung Wai Ting Stephen	4/4
Mr. Tung Cheuk Ming Stanley	3/4
Independent non-executive Directors	
Mr. Tsang Ling Biu Gilbert	2/4
Mr. Cheung Che Kit Richard	2/4
Mr. Leung Wang Ching Clarence, J.P.	2/4

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmation from each independent non-executive Director about his independence as set out in Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

CORPORATE GOVERNANCE REPORT (CONTINUED)

APPOINTMENT AND RE-ELECTION OF DIRECTORS

A person may be appointed as a member of the Board at any time either by shareholders' resolutions in general meetings or by resolutions of the Board. New Directors appointed by the Board as an addition to the Board during the year are required to retire at the first general meeting following their appointments and new Directors appointed by the Board to fill a causal vacancy during the year are required to retire at the first general meeting following their appointments, and in both cases, the acting Directors will be eligible for re-election at such general meeting. All Directors are required to retire by rotation at least once every three years at the AGM, subject to re-election by the shareholders. All independent non-executive Directors are appointed for a term of not more than three years.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

Directors' training is an ongoing process. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been informed of the requirement under Code provision A.6.5 of the CG Code regarding continuous professional development. The Company updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the records provided by the Directors, a summary of training received by the Directors during the year is as follows:

Name of Directors	Type of Continuous Professional Development Programmes
Executive Directors	
Mr. Tung Tsun Hong	A, B
Mr. Tung Wai Ting Stephen	A, B
Mr. Tung Cheuk Ming Stanley	A, B
Independent non-executive Directors	
Mr. Tsang Ling Biu Gilbert	A, B
Mr. Cheung Che Kit Richard	A, B
Mr. Leung Wang Ching Clarence, J.P.	A, B

Notes:

A: attending training sessions and/or seminars

B: reviewing materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the remuneration committee (the “Remuneration Committee”) and the nomination committee (the “Nomination Committee”) for overseeing the particular aspects of the affairs of the Company. All the Board committees have been established with defined written terms of reference, which are posted on the Company’s website “www.hwtexiles.com.hk” and the website of the Stock Exchange and are available to the shareholders upon request. All the Board committees would report to the Board on their decisions or recommendations made.

All the Board committees are provided with sufficient resources to discharge their duties.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the Company, namely Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Mr. Tsang Ling Biu Gilbert is the chairman of the Audit Committee. He has professional qualification and experience in accounting and financial matters.

Under its terms of reference, the primary duties of the Audit Committee are mainly (i) to review and supervise the financial reporting process and to oversee the audit process of the Group; (ii) to oversee internal control procedures and corporate governance of our Group; (iii) to supervise internal control systems of our Group; and (iv) and to monitor any continuing connected transactions.

During the year, the Directors’ attendance of the meetings of the Audit Committee is set out as follows:

Name of Directors	Attendance/ Number of Audit Committee Meetings
Mr. Tsang Ling Biu Gilbert	2/2
Mr. Cheung Che Kit Richard	2/2
Mr. Leung Wang Ching Clarence, J.P.	2/2

The meetings were held together with the external auditors of the Company and the chief financial officer of the Company, and discussed auditing, internal control and financial reporting matters which included the review of the interim and annual financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one executive Director, namely Mr. Tung Wai Ting Stephen, and two independent non-executive Directors, namely Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Mr. Leung Wang Ching Clarence, J.P. is the chairman of the Remuneration Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Under its terms of reference, the primary duties of the Remuneration Committee are mainly (i) to evaluate the performance of all Directors and senior management and make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iii) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors.

Pursuant to provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year are as follows:

Remuneration band	Number of individual
Not exceeding HK\$1,000,000	5

During the year, the remuneration packages of the Directors and the senior management of the Group were reviewed and discussed at the meetings of the Remuneration Committee. The Directors' attendance of the meetings of the Remuneration Committee is set out as follows:

Name of Directors	Attendance/ Number of Remuneration Committee Meeting
Mr. Tung Wai Ting Stephen	1/1
Mr. Cheung Che Kit Richard	1/1
Mr. Leung Wang Ching Clarence, J.P.	1/1

NOMINATION COMMITTEE

The Nomination Committee comprises one executive Director, namely Mr. Tung Cheuk Ming Stanley, and two independent non-executive Directors, namely Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Mr. Leung Wang Ching Clarence, J.P. is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (i) to review the structure, size and composition of our Board on a regular basis; (ii) to make recommendations to our Board relating to the appointment and removal of Directors; (iii) to identify individuals suitably qualified to become members of our Board; and (iv) to assess the independence of our independent non-executive Directors.

The Company has adopted a board diversity policy (the "Policy"). The purpose of the Policy is to set out the basic principles to be followed to ensure that the Board has appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Under the Policy, the selection of the Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, which are the measurable objectives for implementing the Policy.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to this policy in selection of the Board candidates. Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The Nomination Committee is also responsible for reviewing the Policy, developing and reviewing measurable objectives for implementing the Policy and monitoring the progress on achieving these measurable objectives. The review of the Policy and the measurable objectives shall be carried out at least annually to ensure the continued effectiveness of the Board.

During the year, the Nomination Committee has considered the Policy and whether the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the Policy for the year.

During the year, the Directors' attendance of the meetings of the Nomination Committee is set out as follows:

Name of Directors	Attendance/ Number of Nomination Committee Meeting
Mr. Tung Cheuk Ming Stanley	1/1
Mr. Cheung Che Kit Richard	1/1
Mr. Leung Wang Ching Clarence, J.P.	1/1

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibility of the external auditors of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 33 to 37.

COMPANY SECRETARY

Mr. Cheung Ka Chun, the Company Secretary, reports to the chairman of the Board. The details of his biography is set out in the section headed "Directors and Senior Management" of this annual report. Mr. Cheung also confirmed that he has taken no less than 15 hours relevant professional training during the year.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness in order to safeguard the interest of the Group and the shareholders, and to review and monitor the effectiveness of the internal control and risk management systems on an ongoing basis to ensure that the systems in place are adequate.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Group's risk management and internal control systems are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. Such systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, through the Audit Committee, has reviewed the adequacy and effectiveness of the Group's systems of risk management and internal control covering all material controls, including financial, operation, compliance and internal controls as well as risk management functions. During the year, it identified material risks of the Group and formulated corresponding solutions to manage the risks after taking into account the risk tolerance of the Group.

The Board considered that the risk management and internal control systems of the Group to be adequate and effective for the year. The Board and the Audit Committee also considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the CG Code regarding risk management and internal control systems in general for the year.

Code provision C.2.5 requires the issuer should have an internal audit function. In the opinion of the directors, the size of the Group does not warrant setting up an internal audit department. However, during the year under review, the Board has conducted a review on the effectiveness of the internal control system of the Group, namely, management supervision, compliance with the CG Code, and major areas of the internal control systems and procedures to assure the Board that the system of internal control is functioning as intended. The results of the internal control review were submitted to the Board for their consideration.

The Group strictly follows the requirements of the SFO and the Listing Rules and ensures that inside information is disclosed to the public as soon as reasonably practicable. Before inside information is fully disclosed to the public, such information is kept strictly confidential. The Group has further enhanced the procedures with the establishment of a continuous disclosure policy and provided with relevant training to all relevant staff of the Group. The Board considered that the procedures and measures in relation to the handling and dissemination of the inside information to be effective and adequate.

EXTERNAL AUDITORS

The Group's external auditors are Deloitte Touche Tohmatsu, Certified Public Accountants. In order to maintain their independence, objectivity and effectiveness in performing the audit services, the Audit Committee pre-approved all audit services and discussed with Deloitte Touche Tohmatsu, Certified Public Accountants the nature and scope of the audit services.

During the year, the remuneration paid or payable to Deloitte Touche Tohmatsu, Certified Public Accountants in respect of audit services was HK\$1,000,000. The fee paid or payable to Deloitte Touche Tohmatsu, Certified Public Accountants for non-audit services, namely review of unaudited interim results of the Group for the six months ended 30 June 2018, was HK\$400,000.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions for the period from the Listing Date to 31 December 2018.

INVESTOR RELATIONS AND COMMUNICATION

The Board and the senior management recognise the importance of communication with the shareholders and accountability to shareholders. Annual and interim reports offer comprehensive operational and financial performance information to the shareholders. The senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Group has set up its own website "www.hwttextiles.com.hk", which is updated on a regular basis, as a means to provide updated information on the Company to investors.

GENERAL MEETINGS WITH SHAREHOLDERS

The Company's annual general meeting provides a useful platform for direct communication between the Board and the shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

SHAREHOLDERS' RIGHTS

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirement under Paragraph O of the CG Code:

Convening of extraordinary general meeting on requisition by shareholders

Pursuant to article 12.3 of the articles of association of the Company, any two or more shareholders collectively or any recognised clearing house (or its nominee(s)) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting ("EGM") to be called by the Board. The written requisition must specify the business to be transacted on the EGM, which shall be held within two months after the deposit of such requisition for the attention of the Company Secretary. If within 21 days from the date of the deposit of the requisition, the Board fails to proceed to convene an EGM, the shareholder(s) concerned may themselves convene an EGM, and all reasonable expenses incurred by the shareholder(s) making the requisition as a result of the failure of the Board shall be reimbursed by the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Procedures for directing shareholders' enquiries to the Board

Shareholder(s) may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Address: Unit A6, 31st Floor, TML Tower, 3 Hoi Shing Road, Tsuen Wan, Hong Kong

Email: general@hwtextiles.com.hk

The Company Secretary shall forward the shareholder(s)' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to the shareholder(s)' questions.

Procedures for putting forward proposals at general meetings by shareholders

Any shareholder of the Company who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration not less than seven days prior to the date of a general meeting through the Company Secretary of the Company whose contact details are set out in the paragraph "Procedures for directing shareholders' enquiries to the Board" above.

CONSTITUTIONAL DOCUMENTS

There has been no change in the memorandum and articles of association of the Company for the period from the Listing Date to 31 December 2018.



TO THE SHAREHOLDERS OF HINGTEX HOLDINGS LIMITED

興紡控股有限公司

(incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Hingtex Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 119, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for inventories	
We identified the estimated allowance for inventories as a key audit matter due to the significance of the balances to the consolidated statement of financial position as a whole, estimation uncertainty and the management judgment involved in the estimation of the net realisable values.	Our procedures in relation to valuation of inventories included:
As disclosed in note 22 to the consolidated financial statements, the inventories are stated at the lower of cost and net realisable value, amounting to HK\$264,082,000, which represents approximately 39.3% of the Group's total assets.	- Obtaining an understanding of the inventory allowance policies adopted by the management and determining whether relevant controls have been implemented; - Testing the accuracy of the aging analysis to the supporting documents, on a sample basis; - Tracing a selection of inventories to their recent sales records to assess whether the net realisable value of the inventories is higher than cost of the inventories;
As disclosed in note 4 to the consolidated financial statements, the management identified aged inventories with reference to ageing analysis and determines the net realisable value of inventories by considering the saleability of inventories based on current market demand and future sales plan.	- Tracing a selection of raw materials and work in progress with subsequent consumption to the inventories consumption report; and - Inquiring the management and evaluating whether the basis of aged inventories subject to impairment identified by management based on the ageing analysis, current market demand and future sales plan is reasonable.

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 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 (CONTINUED)

As part of an audit in accordance with HKSA's, 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.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 for 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 David Leung Ho Ming.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	Year ended 31 December	
		2018 HK\$'000	2017 HK\$'000
Revenue	5	640,724	648,219
Cost of sales		(440,111)	(435,402)
Gross profit		200,613	212,817
Other income	7	7,194	27,234
Other gains and losses	8	(508)	2,699
Impairment losses, net of reversal	9	136	(169)
Selling and distribution expenses		(25,561)	(24,487)
Administrative expenses		(69,382)	(59,857)
Listing expenses		(17,344)	(5,315)
Share of profit of a joint venture		139	45
Finance costs	10	(3,357)	(1,272)
Profit before tax	11	91,930	151,695
Income tax expense	12	(19,129)	(25,217)
Profit and total comprehensive income for the year attributable to owners of the Company		72,801	126,478
EARNINGS PER SHARE			
— Basic (HK cents)	14	13.14	26.35

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

		At 31 December 2018 HK\$'000	2017 HK\$'000
	NOTES		
Non-current assets			
Property, plant and equipment	16	90,973	93,415
Prepaid lease payments	17	18,434	19,081
Other intangible assets	18	5,140	5,358
Goodwill	19	1,184	1,184
Interest in a joint venture	20	4,247	4,108
Structured bank deposits	21	7,800	7,800
Restricted bank deposits	26	–	19,435
Deferred tax assets	32	133	–
Total non-current assets		127,911	150,381
Current assets			
Inventories	22	264,082	212,455
Trade and other receivables	23	89,302	77,732
Prepaid lease payments	17	647	647
Amount due from a joint venture	24	–	3,495
Amounts due from directors	25	–	5,380
Restricted bank deposits	26	4,054	–
Bank balances and cash	26	185,140	153,957
Total current assets		543,225	453,666
Current liabilities			
Trade and other payables	27	114,076	194,624
Amount due to a joint venture	24	166	–
Amount due to a related company	28	–	739
Tax liabilities		6,050	28,042
Obligations under finance leases	29	2,510	1,220
Bank borrowings	30	107,950	80,616
Contract liabilities	31	1,029	–
Total current liabilities		231,781	305,241
Net current assets		311,444	148,425
Total assets less current liabilities		439,355	298,806

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2018

	NOTES	At 31 December 2018 HK\$'000	2017 HK\$'000
Non-current liabilities			
Obligations under finance leases	29	3,352	1,153
Deferred tax liabilities	32	6,978	7,166
Total non-current liabilities		10,330	8,319
Net assets		429,025	290,487
Capital and reserves			
Share capital	33	6,400	1,605
Share premium		164,701	–
Reserves		257,924	288,882
Equity attributable to owners of the Company and total equity		429,025	290,487

The consolidated financial statements on pages 38 to 119 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Mr. Tung Tsun Hong

Director

Mr. Tung Wai Ting Stephen

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share Capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2017	1,510	–	–	453,212	454,722
Shares issued on incorporation of the Company and its subsidiaries	5	–	–	–	5
New ordinary shares issued	90	–	–	(90)	–
Profit and total comprehensive income for the year	–	–	–	126,478	126,478
Deemed contribution from shareholders (note)	–	–	9,282	–	9,282
Dividend recognised as distribution (note 15)	–	–	–	(300,000)	(300,000)
At 1 January 2018 (audited)	1,605	–	9,282	279,600	290,487
Adjustments (see note 2)	–	–	–	(564)	(564)
At 1 January 2018 (restated)	1,605	–	9,282	279,036	289,923
Profit and total comprehensive income for the year	–	–	–	72,801	72,801
Dividend recognised as distribution (note 15)	–	–	–	(100,000)	(100,000)
Effect on Reorganisation (as defined in note 1)(note 33(i))	(1,600)	–	1,600	–	–
Capitalisation Issue (as defined in note 33(ii))	4,795	–	(4,795)	–	–
Issuance of new shares upon listing (note 33(iii))	1,600	164,701	–	–	166,301
At 31 December 2018	6,400	164,701	6,087	251,837	429,025

Note:

Prior to 7 July 2017, Kingshine Investments Limited ("Kingshine Investments") was owned by certain Controlling Shareholders (as defined in note 1) namely Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, for an aggregate equity interest of 43%. The remaining 57% were owned by Ex-Shareholders (as defined in note 41), independent third parties not connected with the Controlling Shareholders nor the Group.

On 7 July 2017, Kingshine Investment Group Limited ("Kingshine Group", a company comprising the Group) entered into a sale and purchase agreement with Ex-Shareholders, pursuant to which Kingshine Group acquired 57% of Ex-Shareholders' equity interest in Kingshine Investments (referred to as the "Acquisition" as defined in note 41). Kingshine Group became the immediate holding company of Kingshine Investments following completion of the Acquisition on 7 July 2017. The non-controlling interests of HK\$9,282,000 represented the 43% equity interest held by Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley at the date of the Acquisition. As part of the Reorganisation, Kingshine Group acquired their respective equity interest, representing 16.0%, 13.5% and 13.5% of equity interest in Kingshine Investments from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, respectively, through a swap agreement on 23 March 2018. As such, the equity interest held by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung prior to the Acquisition totaling HK\$9,282,000 was recognised as deemed contribution from shareholders in other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
OPERATING ACTIVITIES		
Profit before tax	91,930	151,695
Adjustments for:		
Finance costs	3,357	1,272
Interest income	(1,374)	(21,414)
Share of profit of a joint venture	(139)	(45)
Depreciation of property, plant and equipment	13,324	10,692
Amortisation of other intangible assets	647	–
Release of prepaid lease payments	647	350
Impairment losses (reversed) recognised on trade and bills receivables	(136)	169
Gain on disposal of property, plant and equipment	(626)	(1,876)
Net foreign exchange loss (gain)	547	(698)
Operating cash flows before movements in working capital	108,177	140,145
Increase in inventories	(51,627)	(42,565)
Increase in trade and other receivables	(12,974)	(33,792)
(Decrease) increase in trade and other payables	(73,500)	34,117
Increase in contract liabilities	821	–
Increase (decrease) in amount due to a joint venture	166	(446)
Decrease in amounts due to related companies	–	(6,907)
Cash (used in) generated from operations	(28,937)	90,552
Income tax paid	(41,442)	(17,979)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(70,379)	72,573

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	NOTE	Year ended 31 December	
		2018 HK\$'000	2017 HK\$'000
INVESTING ACTIVITIES			
Interest received		1,374	1,031
Proceeds on disposal of property, plant and equipment		3,449	2,995
Net cash inflow on acquisition of subsidiaries (note 41)		–	939
Settlement of consideration payable for acquisition of subsidiaries in prior year		(6,840)	(16,971)
Purchase of property, plant and equipment		(7,386)	(26,320)
Purchase of other intangible assets		(429)	–
Placement of restricted bank deposits		(4,054)	(74)
Proceeds on release of restricted bank deposits		19,435	–
Advances to directors		(27,411)	(9,158)
Repayments from directors		5,250	8,350
Advance to a joint venture		–	(3,495)
Repayments from a joint venture		3,495	–
Advances to related companies		–	(11,780)
NET CASH USED IN INVESTING ACTIVITIES		(13,117)	(54,483)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		101,105	67,420
Repayment of bank borrowings		(73,771)	(22,658)
Repayment of finance leases		(2,830)	(2,179)
Interest paid		(3,357)	(1,272)
Dividend paid (note 15)		(72,459)	–
Proceeds from issue of new ordinary shares upon listing (note 33)		179,200	–
Payments of listing expenses		(11,923)	(976)
Repayments to directors		–	(16,365)
Repayments to related companies		(739)	(229)
NET CASH FROM FINANCING ACTIVITIES	42	115,226	23,741
NET INCREASE IN CASH AND CASH EQUIVALENTS		31,730	41,831
Cash and cash equivalents at the beginning of the year		153,957	111,428
Effect of foreign exchange rate changes		(547)	698
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		185,140	153,957

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Hingtex Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 3 November 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 July 2018.

In preparation of the proposed listing of the Company’s shares on the Stock Exchange, the Group have completed a reorganisation on 23 March 2018 (the “Reorganisation”), and since then became the holding company of the entities comprising the group. The Company’s immediate and ultimate holding company is Manford Investment Holdings Limited (“Manford Investment”), a company incorporated on 24 October 2017 in the British Virgin Islands (“BVI”) under the laws of BVI with limited liability and is owned as to 30% by Tung Tsun Hong (“Mr. TH Tung”), 20% by Tung Wai Ting Stephen (“Mr. Stephen Tung”), 20% by Tung Cheuk Ming Stanley (“Mr. Stanley Tung”), 10% by Lau Chung Chau (“Mrs. Tung”), 10% by Tung Wei Ling Barbara (“Ms. Barbara Tung”) and 10% by Tung Wai Lai Mabel (“Ms. Mabel Tung”) (collectively referred to as the “Controlling Shareholders”). Mr. TH Tung and Mrs. Tung are the father and mother, respectively, of Mr. Stephen Tung, Mr. Stanley Tung, Ms. Barbara Tung and Ms. Mabel Tung.

The Group resulting from the Reorganisation is regarded as a continuing entity.

Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* as if the group structure under the group reorganisation had been in existence throughout the two years ended 31 December 2018 or since their respective dates of incorporation/establishment or date of acquisition, whichever is the shorter period.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the manufacturing and sales of denim fabric. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The functional currency of the Company is United States Dollar (“US\$”), as the sales activities of the Group are mainly denominated in US\$, and the presentation currency of the Group is Hong Kong dollars (“HK\$”), as the directors of the Company consider HK\$ can provide more meaningful information to the Company’s investors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

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

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

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

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

2.1 HKFRS 15 *Revenue from Contracts with Customers*

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

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

The Group recognises revenue from the following major sources of sales of denim fabrics:

- Non-stretchable denim fabrics
- Stretchable cotton denim fabrics
- Stretchable blended denim fabrics

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

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

Summary of effects arising from initial application of HKFRS 15

The initial application of HKFRS 15 on the Group's major revenue generating operation has no impact on the retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$'000
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Current Liabilities

Trade and other payables	Note	194,624	(208)	194,416
Contract liabilities	Note	–	208	208

Note: As at 1 January 2018, advances from customers of HK\$208,000 previously included in trade and other payables related to sales of denim fabrics were reclassified to contract liabilities upon application of HKFRS 15.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included. The impact of applying HKFRS 15 on the Group's consolidated statement of profit or loss and other comprehensive income was insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.1 HKFRS 15 *Revenue from Contracts with Customers* (Continued)

Impact on the consolidated statement of financial position

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current Liabilities			
Trade and other payables	114,076	1,029	115,105
Contract liabilities	1,029	(1,029)	–

Impact on the consolidated statement of cash flows

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current Liabilities			
Decrease in trade and other payables	(73,500)	821	(72,679)
Increase in contract liabilities	821	(821)	–

2.2 HKFRS 9 *Financial Instruments and the related amendments*

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.2 HKFRS 9 *Financial Instruments and the related amendments* (Continued)

Summary of effects arising from initial application of HKFRS 9

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

		Trade and bills receivable HK\$'000	Deferred tax assets HK\$'000	Retained profits HK\$'000
Closing balance at 31 December 2017				
— HKAS 39		45,891	—	279,600
Effect arising from initial application of HKFRS 9:				
Remeasurement				
Impairment under ECL model	Note	(719)	155	(564)
Opening balance at 1 January 2018		45,172	155	279,036

Note: Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, except for those which had been determined as credit impaired under HKAS 39, the remaining balances of trade receivables have been grouped based on shared credit risk characteristics and past due analysis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, mainly bills receivables, other receivables, bank balances and cash, structured bank deposits and restricted bank deposits, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK\$719,000 has been recognised against retained profits. The additional loss allowance is charged against trade and bills receivables. The additional deferred tax effect of HK\$155,000 has been credited to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.2 HKFRS 9 *Financial Instruments and the related amendments* (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

All loss allowances for trade and bills receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade and bills receivables HK\$'000
At 31 December 2017 — HKAS 39	(222)
Amounts remeasured through opening retained profits	(719)
At 1 January 2018	(941)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line item affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) HK\$'000	HKFRS 15 HK\$'000	HKFRS 9 HK\$'000	1 January 2018 (Restated) HK\$'000
Non-current Assets				
Deferred tax assets	—	—	155	155
Current Assets				
Trade and other receivables	77,732	—	(719)	77,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)

	31 December 2017 (Audited) HK\$'000	HKFRS 15 HK\$'000	HKFRS 9 HK\$'000	1 January 2018 (Restated) HK\$'000
Current Liabilities				
Trade and other payables	194,624	(208)	–	194,416
Contract liabilities	–	208	–	208
Net Current Assets	148,425	–	(719)	147,706
Total Assets less Current Liabilities	298,806	–	(564)	298,242
Capital and Reserves				
Reserves	288,882	–	(564)	288,318
Equity attributable to owners of the Company and total equity	290,487	–	(564)	289,923

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)

The net effects arising from the initial application of HKFRS 15 and HKFRS 9 on the carrying amount of interest in a joint venture on the opening consolidated financial statements and the consolidated financial statements for the current year was insignificant in the opinion of the directors of the Company.

2.4 New and amendments to HKFRSs in issue but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business 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

⁵ 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 consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.4 New and amendments to HKFRSs in issue but not yet effective *(Continued)*

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 upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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

2.4 New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 Leases *(Continued)*

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$10,868,000 as disclosed in note 34. A preliminary assessment indicated that these arrangements met the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$1,279,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. 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 applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group did not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 price (unadjusted) in active market 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 assets or liability.

The principal accounting policies adopted are as follows:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

Where 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Investment in a subsidiary

Investment in a subsidiary included in the Company's statement of financial position is at cost less identified impairment loss, if any.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the consolidation, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

Revenue recognition (prior to 1 January 2018)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018) *(Continued)*

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leases

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.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as an obligation under finance lease.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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 monetary items and retranslation of monetary items are recognized 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 entities are translated into the presentation currency of the Group (i.e. HK\$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans including Mandatory Provident Fund Scheme and a state-managed defined contribution retirement scheme organised by the relevant local government authority in the People's Republic of China (the "PRC") are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax 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 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

The carrying amount of deferred tax assets is reviewed at the end of each 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 asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when 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.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. 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. 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 impairment loss that would otherwise have been allocated to the asset is allocated pro rata to other assets of the unit. An impairment loss is recognized immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above) *(Continued)*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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 a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

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

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

Amortised cost and interest income

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

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bill receivables, other receivables, structured bank deposits, restricted bank deposits 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. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(i) Significant increase in credit risk

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

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increase significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial 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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(v) Measurement and recognition of ECL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, amount due from a joint venture, structured bank deposits, restricted bank deposits, bank balances and cash and amounts due from directors) are measured at amortised cost using the effective interest method, less any impairment.

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

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

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation or disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit periods ranging from 30 days to 120 days regarding different customers, observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

Financial liabilities and equity

Classification as debt or equity

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

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

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including bank borrowings, trade and other payables, amount due to a joint venture, amount due to a related party and obligations under financial leases are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9 (since 1 January 2018)/HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (before application of HKFRS 9 on 1 January 2018); and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management of the Group estimates the useful lives of various categories of property, plant and equipment according to the experiences over the usage of them and also by reference to the relevant industrial norm. If the actual useful lives of them are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful life.

As at 31 December 2018, the carrying amount of property, plant and equipment was HK\$90,973,000 (2017: HK\$93,415,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Provision of ECL for trade and bills receivables

The Group uses provision matrix to calculate ECL for the trade and bills receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the counterparties' past due history, current past due exposure and taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the past due history and current past due exposure are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bills receivables are disclosed in notes 38.

Estimated allowance for inventories

The Group regularly reviews whether there are any indications of write-down of inventories if the carrying amount of an inventory is lower than its net realisable value. The net realisable value have been determined based on the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group also assessed the net realisable value by taking into account whether the cost of inventories may be recoverable by assessing if those inventories are damaged, wholly or partially obsolete, or if their selling prices have declined due to change in market conditions or macro economic factors.

As at 31 December 2018, the carrying amount of inventories, without allowance for write-down, was HK\$264,082,000 (2017: HK\$212,455,000).

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	Year ended 31 December 2018 HK\$'000
Types of goods or service	
Sales of denim fabrics	
Non-stretchable denim fabrics	18,341
Stretchable cotton denim fabrics	69,466
Stretchable blended denim fabrics	546,103
Others (note)	6,814
Total	640,724

Note: Others mainly includes revenue from sales of yarns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

5. REVENUE (Continued)

A. For the year ended 31 December 2018 (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

	Year ended 31 December 2018 HK\$'000
Timing of revenue recognition	
A point in time	640,724

Performance obligations for contracts with customers

The Group sells denim fabrics and yarns directly to customers, which are mainly garment manufacturers.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific locations (delivery). Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 120 days upon delivery.

All denim fabrics are delivered within period less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	Year ended 31 December 2017 HK\$'000
Non-stretchable denim fabrics	38,921
Stretchable cotton denim fabrics	88,387
Stretchable blended denim fabrics	519,326
Others (note)	1,585
Total	648,219

Note: Others mainly includes revenue from sales of yarns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

6. OPERATING SEGMENTS

Information reported to the chief executive officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue analysis by products. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Geographical information

The Group mainly operates in Hong Kong and the PRC, and the Group's non-current assets are mainly located in the PRC.

Information about the Group's revenue is presented based on the geographical location of the customers.

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong	315,176	356,318
The PRC	153,390	104,200
Bangladesh	101,117	84,873
Vietnam	49,357	52,871
Macau	7,628	9,970
Taiwan	7,441	17,789
Other countries and regions	6,615	22,198
Total	640,724	648,219

Information about major customers

The following illustrates the revenue from customers which contributing over 10% of the total revenue of the Group:

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Customer A	85,678	124,724
Customer B	84,368	100,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

7. OTHER INCOME

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Interest income from bank deposits	1,374	1,031
Imputed interest income on amounts due from related companies (note i)	–	20,383
Services fee from a joint venture (note ii)	5,400	5,400
Storage income	420	420
	7,194	27,234

Notes:

- (i) The amounts represented the imputed interest income from amounts due from related companies, which was calculated at an effective interest rate of 8% per annum. The amounts due from related companies were settled in full during the year ended 31 December 2017.
- (ii) Service fee represents income from provision of management service including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK\$450,000.

8. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Gain on disposal of property, plant and equipment	626	1,876
Net foreign exchange (loss) gain	(547)	698
Others	(587)	125
	(508)	2,699

9. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Impairment losses (reversed) recognised on:		
— Trade and bills receivables	(136)	169

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

10. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	3,249	1,153
Interest expenses on finance leases	108	119
	3,357	1,272

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Directors' remuneration:		
— Emoluments, salaries and other benefits	15,836	13,443
— Retirement benefit scheme contributions	36	36
	15,872	13,479
Other staff salaries and allowances	45,897	34,973
Retirement benefit scheme contributions, excluding those of directors	2,792	2,119
Total employee benefits expenses	64,561	50,571
Capitalised as cost of inventories manufactured	(21,106)	(16,120)
	43,455	34,451
Depreciation of property, plant and equipment	13,324	10,692
Amortisation of other intangible assets	647	—
Release of prepaid lease payments	647	350
	14,618	11,042
Capitalised as cost of inventories manufactured	(9,471)	(5,565)
	5,147	5,477
Auditor's remuneration	1,761	301
Cost of inventories recognised as an expense	440,111	435,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

12. INCOME TAX EXPENSE

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Current tax:		
— Hong Kong profits tax	15,601	21,139
— PRC enterprise income tax	3,419	3,881
Under provision in prior years		
— PRC enterprise income tax	275	43
Deferred tax (note 32)	(166)	154
Total	19,129	25,217

Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2017: 25%) during the year.

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

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Profit before tax	91,930	151,695
Tax at Hong Kong Profits Tax rate of 16.5%	15,168	25,030
Tax effect of expenses not deductible for tax purposes	3,115	1,623
Tax effect of income not taxable for tax purposes	(316)	(3,371)
Under provision in prior years	275	43
Effect of different tax rates of subsidiaries operating in the PRC	887	1,892
	19,129	25,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors and chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) during the year are as follows:

	Fees HK\$'000	Salaries and other allowances HK\$'000	Retirement benefit scheme contributions HK\$'000	Other benefit HK\$'000 (note v)	Total HK\$'000
For the year ended 31 December 2018					
<i>Executive directors</i>					
Mr. TH Tung (Note i)	–	5,450	–	14	5,464
Mr. Stephen Tung (note ii)	–	4,280	18	–	4,298
Mr. Stanley Tung (note iii)	–	4,200	18	1,561	5,779
<i>Independent non-executive directors</i>					
Mr. Tsang Ling Biu Gilbert (note iv)	–	165	–	–	165
Mr. Cheung Che Kit Richard (note iv)	–	83	–	–	83
Mr. Leung Wang Ching Clarence, J.P. (note iv)	–	83	–	–	83
	–	14,261	36	1,575	15,872
For the year ended 31 December 2017					
<i>Executive directors</i>					
Mr. TH Tung (note i)	–	3,725	–	822	4,547
Mr. Stephen Tung (note ii)	–	3,130	18	720	3,868
Mr. Stanley Tung (note iii)	–	3,510	18	1,536	5,064
	–	10,365	36	3,078	13,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors and chief executive's emoluments (Continued)

Notes:

- (i) Mr. TH Tung was appointed as a director of the Company on 3 November 2017 and appointed as chairman of the Company on 16 January 2018.
- (ii) Mr. Stephen Tung was appointed as a director of the Company on 3 November 2017 and appointed as chief executive officer of the Company on 16 January 2018.
- (iii) Mr. Stanley Tung was appointed as a director of the Company on 3 November 2017.
- (iv) Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P. were appointed as independent non-executive directors of the Company on 19 June 2018.
- (v) Other benefit represents rentals for directors' quarters.

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

Mr. Stephen Tung is the chief executive officer of the Company and his emolument for the role as chief executive officer is also included above.

During the year, no emoluments were paid by the Group to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Company waived any emoluments during the year.

(b) Employees' emoluments

The five highest paid individuals of the Company included three (2017: three) directors of the Company for the years ended 31 December 2018. The emoluments of the remaining two (2017: two) individuals for the years ended 31 December 2018 are as follows:

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Salaries and other benefits	1,540	1,697
Retirement benefit scheme contributions	36	36
	1,576	1,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments *(Continued)*

The emoluments of these employees are within the following bands:

	Year ended 31 December	
	2018	2017
Nil to HK\$1,000,000	2	2

During both years, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2018 and 2017 is based on the following data:

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Earning for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	72,801	126,478

	Year ended 31 December	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	554,082	480,000

The weighted average number of ordinary shares for the purpose of basic earnings per share has been retrospectively adjusted for the Reorganisation Issue and Capitalisation Issue (as defined in note 33). Please refer to note 33 for details.

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

15. DIVIDEND

	Year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 special dividend (note (i))	100,000	–
2017 interim dividend (note (ii))	–	300,000
	100,000	300,000

Notes:

- (i) In May 2018, a special dividend amounting to HK\$100,000,000 was recognised as distribution of the Company to its then shareholders, being the Controlling Shareholders. Pursuant to the settlement agreements signed between the Group and the Controlling Shareholders, the amounts due from directors of HK\$27,541,000 were offset against such special dividend. No rate of dividend is presented as it is not considered meaningful for the purpose of this report.
- (ii) During the year ended 31 December 2017, an interim dividend of HK\$300,000,000 was recognised as distribution by H.W. Textiles Company Limited ("HWT"), a company comprising the Group, to its then shareholders, being the Controlling Shareholders. No rate of dividend is presented as it is not considered meaningful for the purpose of this report.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK2 cents (2017: Nil) per ordinary share, in an aggregate amount of HK\$12,800,000 (2017: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Other equipment HK\$'000	Total HK\$'000
<i>Cost</i>						
At 1 January 2017	29,538	62,336	12,714	6,040	821	111,449
Additions	997	21,438	4,744	1,706	773	29,658
Acquired on acquisition of subsidiaries (note 41)	10,313	7,380	286	–	675	18,654
Disposals	–	(14,294)	(2,497)	–	(4)	(16,795)
At 31 December 2017	40,848	76,860	15,247	7,746	2,265	142,966
Additions	–	4,694	6,868	222	1,921	13,705
Disposals	–	(993)	(4,746)	–	–	(5,739)
At 31 December 2018	40,848	80,561	17,369	7,968	4,186	150,932
<i>Accumulated depreciation</i>						
At 1 January 2017	8,074	37,886	5,527	2,519	529	54,535
Charge for the year	1,656	4,971	2,622	1,199	244	10,692
Eliminated on disposals	–	(14,046)	(1,627)	–	(3)	(15,676)
At 31 December 2017	9,730	28,811	6,522	3,718	770	49,551
Charge for the year	1,026	7,897	2,640	1,481	280	13,324
Eliminated on disposals	–	(894)	(2,022)	–	–	(2,916)
At 31 December 2018	10,756	35,814	7,140	5,199	1,050	59,959
<i>Carrying amount</i>						
At 31 December 2017	31,118	48,049	8,725	4,028	1,495	93,415
At 31 December 2018	30,092	44,747	10,229	2,769	3,136	90,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Leasehold land and buildings	Over the shorter of lease terms or 20 years
Plant and machinery	3–10 years
Motor vehicles	5–10 years
Furniture and fixtures	5 years
Other equipment	3–5 years

At 31 December 2018, the net book value of motor vehicles included an amount of HK\$7,317,000 (2017: HK\$4,746,000) in respect of motor vehicles held under finance leases.

17. PREPAID LEASE PAYMENTS

	2018 HK\$'000	2017 HK\$'000
Analysed for the reporting purpose as:		
Current portion	647	647
Non-current portion	18,434	19,081
	19,081	19,728

The amounts represent interest in land use rights located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

18. OTHER INTANGIBLE ASSETS

	Club memberships HK\$'000 note (i)	Software HK\$'000 note (ii)	Technical Knowhow HK\$'000 note (iii)	Total HK\$'000
<i>Cost</i>				
At 1 January 2017	1,683	–	–	1,683
Acquired on acquisition of subsidiaries (note 41)	–	–	3,675	3,675
At 31 December 2017	1,683	–	3,675	5,358
Additions	–	429	–	429
At 31 December 2018	1,683	429	3,675	5,787
<i>Accumulated amortization</i>				
At 1 January and 31 December 2017	–	–	–	–
Charge for the year	–	96	551	647
At 31 December 2018	–	96	551	647
<i>Carrying amount</i>				
At 31 December 2017	1,683	–	3,675	5,358
At 31 December 2018	1,683	333	3,124	5,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

18. OTHER INTANGIBLE ASSETS *(Continued)*

Notes:

- (i) The club memberships represent corporate memberships with golf clubs which are lifetime memberships. As such, the golf club memberships are considered by the Group as having indefinite useful lives and will not be amortised until their useful lives are determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. As at 31 December 2018 and 2017, the management of the Group determined that there is no impairment on club membership as the recoverable amount, which is determined by reference of the fair value less costs of disposal, is higher than the carrying amount of the club memberships.
- (ii) Software was purchased during the year ended 31 December 2018 and is amortised on a straight-line basis over 3 years.
- (iii) Technical knowhow was purchased through acquisition of subsidiaries during the year ended 31 December 2017 and is amortised on a straight-line basis over 10 years. No amortisation is recognised during the year ended 31 December 2017 as the amount is immaterial.

19. GOODWILL

	HK\$'000
Cost and carrying amount	
At 1 January 2017	–
Acquisition of subsidiaries (note 41)	1,184
At 31 December 2017 and 2018	1,184

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit (CGU), which is a subsidiary engaged in the spinning, dyeing, desizing, shrinking and finishing process of denim fabrics manufacturing. As at 31 December 2018, management of the Group determines that there is no impairment of the CGU containing goodwill.

The basis of the recoverable amounts of the CGU and the major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period (2017: five-year), and pre-tax discount rate of 15.43% (2017: 15.43%). The cash flows beyond the five-year period (2017: five-year) are extrapolated using a steady 3% (2017: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any other reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

20. INTEREST IN A JOINT VENTURE

	At 31 December 2018 HK\$'000	2017 HK\$'000
Cost of investment in a joint venture	3,978	3,978
Share of post-acquisition profits and other comprehensive income, net of dividends received	269	130
	4,247	4,108

As at 31 December 2018 and 2017, the Group had interest in the following joint venture:

Name of entity	Place of incorporation/ principal business	Proportion of nominal value of paid up capital 2018	2017	Proportion of voting power held 2018	2017	Principal activities
Kurabo Denim International Limited ("KDIL")	Hong Kong	51%	51%	50%	50%	Trading and provision of technical support

21. STRUCTURED BANK DEPOSITS

	At 31 December 2018 HK\$'000	2017 HK\$'000
Non-current (note)	7,800	7,800

Note:

On 23 September 2016, HWT entered into a subscription agreement with Hong Kong and Shanghai Banking Corporation Limited, to subscribe for a note in the principal amount of US\$1,000,000, with a variable-interest rate linked to London Interbank Offered Rate per annum, payable quarterly in arrears. The note will mature on 23 September 2020.

The structured bank deposit was pledged to a bank for a bank facility granted to the Group as at 31 December 2017. The pledge was released upon the listing of the shares of the Company on the Stock Exchange on 16 July 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

22. INVENTORIES

	At 31 December 2018 HK\$'000	2017 HK\$'000
Raw materials	48,416	52,858
Work in progress	38,874	23,317
Finished goods	176,792	136,280
	264,082	212,455

23. TRADE AND OTHER RECEIVABLES

	At 31 December 2018 HK\$'000	2017 HK\$'000
Trade and bills receivables	48,634	46,113
Less: allowance for credit loss	(805)	(222)
	47,829	45,891
Prepayments	5,353	3,818
Deferred listing expenses	–	976
Value-added tax recoverable	33,458	24,023
Utility and rental deposits	1,576	1,676
Others	1,086	1,348
	89,302	77,732

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers carried a gross amount of HK\$23,072,000 and HK\$23,788,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

23. TRADE AND OTHER RECEIVABLES (Continued)

The Group generally allows credit periods ranging from 30 days to 120 days regarding different customers. The following is an aged analysis of trade and bills receivables, presented based on the invoice date at the end of each reporting period:

	At 31 December 2018 HK\$'000	2017 HK\$'000
Within 30 days	33,346	27,790
31 to 60 days	7,459	9,275
61 to 120 days	5,542	5,558
121 to 180 days	1,733	3,036
181 to 365 days	164	232
More than 365 days	390	222
	48,634	46,113

As at 31 December 2018, total bills received amounting to HK\$25,562,000 (2017: HK\$22,325,000) are held by the Group.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$12,746,000 which are past due as at the reporting date. Out of the past due balances, HK\$795,000 has been past due 90 days or more and is considered as in default.

As at 31 December 2017, 81% of the trade receivables that are neither past due nor impaired have no history of default on repayments. The management of the Group considers that these trade receivables are of good quality given the continuous settlement from customers.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$4,403,000, which were past due as at the reporting date for which the Group has not provided for impairment loss. As the management of the Group considered such balances could be recovered based on historical experience.

The following is an aged analysis of trade receivables which are past due but not impaired:

	At 31 December 2017 HK\$'000
Overdue by:	
Within 30 days	1,240
31 to 60 days	348
61 to 120 days	2,464
121 to 180 days	166
181 to 365 days	185
Total	4,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

23. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group has provided fully for all receivables that are past due beyond 365 days because historical experience is such that these receivables are generally not recoverable.

Movement in the allowance for doubtful debts:

	At 31 December 2017 HK\$'000
Balances at beginning of the year	53
Impairment losses recognised on trade receivables	191
Amounts recovered during the year	(22)
Balances at end of the year	222

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

Analysis of trade and other receivables denominated in currencies other than the functional currencies of the relevant group entities is set out below:

	At 31 December 2018 HK\$'000	2017 HK\$'000
HK\$	6,084	3,589
RMB	5,876	2,886
	11,960	6,475

24. AMOUNT DUE FROM/TO A JOINT VENTURE

The amount due from a joint venture as at 31 December 2017 was non-trade in nature, which was unsecured, interest free and repayable on demand. The amount due from a joint venture have been settled in full during the current year.

The amount due to a joint venture as at 31 December 2018 was arising from purchases of raw materials and related service fee. The ageing of the outstanding amounts as at 31 December 2018 is within 30 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

25. AMOUNTS DUE FROM DIRECTORS

	At 31 December	
	2018	2017
	HK\$'000	HK\$'000
Mr. TH Tung	–	2,354
Mr. Stephen Tung	–	1,138
Mr. Stanley Tung	–	1,888
	–	5,380

	Maximum amount outstanding during the year ended 31 December	
	2018	2017
	HK\$'000	HK\$'000
Mr. TH Tung	24,998	3,439
Mr. Stephen Tung	1,138	11,791
Mr. Stanley Tung	4,522	3,023

The amounts due from directors of the Company as at 31 December 2017 were non-trade in nature, unsecured, interest free and repayable on demand. The amounts have been settled in full during the current year.

26. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposit carries an interest rate of 0.3% (2017: 0.5% to 1.14% per annum) as at 31 December 2018, and was requested by a bank and custom for import and export business purpose (2017: pledged to a bank for banking facilities granted to the Group).

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at variable rates which range from nil to 0.35% per annum (2017: nil to 0.35% per annum) as at 31 December 2018.

Analysis of restricted bank deposits together with bank balances and cash denominated in currencies other than the functional currencies of the relevant group entities is set out below:

	At 31 December	
	2018	2017
	HK\$'000	HK\$'000
HK\$	151,560	22,797
RMB	9,677	12,721
	161,237	35,518

The restricted bank deposits and bank balances and cash denominated in RMB are mostly held by the group entities incorporated in PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

27. TRADE AND OTHER PAYABLES

	At 31 December 2018 HK\$'000	2017 HK\$'000
Trade and bills payables	96,988	167,424
Deposits received	7,800	8,346
Consideration payable for acquisition of subsidiaries (note 41)	–	6,840
Advances from customers	–	208
Payroll payables	5,279	6,186
Others	4,009	5,620
	114,076	194,624

The aged analysis of the trade and bills payables presented based on the goods receipt date at the end of each reporting period is as follows:

	At 31 December 2018 HK\$'000	2017 HK\$'000
Within 30 days	38,124	78,133
31 to 60 days	28,966	46,349
61 to 180 days	29,898	42,942
	96,988	167,424

The average credit period on purchases of goods is ranging from 30 days to 180 days.

Analysis of trade and other payables denominated in currencies other than the functional currencies of the relevant group entities is set out below:

	At 31 December 2018 HK\$'000	2017 HK\$'000
HK\$	41,261	32,214
RMB	14,409	27,090
	55,670	59,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

28. AMOUNT DUE TO A RELATED COMPANY

	At 31 December 2018 HK\$'000	2017 HK\$'000
Non-Trade in nature:		
Asiabest Capital Venture (note)	–	739

Note:

Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung have controlling interests in this entity. The amount due to this related company as at 31 December 2017 was non-trade in nature, unsecured, interest free and repayable on demand. The amount has been settled in full during the current year.

29. OBLIGATIONS UNDER FINANCE LEASES

The Group leased its motor vehicles under several finance leases. The leases terms is three years. As at 31 December 2018, the interest rates underlying the obligation under the finance leases are fixed at respective contract dates ranging from 2.50% to 4.85% per annum (2017: 2.50% to 4.37% per annum). The leases have no terms of renewal and escalation clauses. All leases have purchase options, pursuant to which, the Group has rights to acquire these motor vehicles at pre-agreed prices upon the maturity of the leases terms.

	At 31 December 2018 HK\$'000	2017 HK\$'000
Analysed for the reporting purpose as:		
Current portion	2,510	1,220
Non-current portion	3,352	1,153
	5,862	2,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

29. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Within 1 year	2,727	1,271	2,510	1,220
Over 1 year but less than 2 years	2,374	1,163	2,269	1,153
Over 2 years but less than 5 years	1,096	—	1,083	—
	6,197	2,434	5,862	2,373
Less: future finance charges	(335)	(61)	N/A	N/A
Present value of minimum lease payments	5,862	2,373	5,862	2,373

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

30. BANK BORROWINGS

	At 31 December	
	2018 HK\$'000	2017 HK\$'000
Analysed as:		
Secured	—	80,616
Unsecured	107,950	—
The carrying amounts of the above bank borrowings are repayable (note i):		
— within one year	78,492	49,794
— within a period of more than one year but not exceeding two years	15,640	8,994
— within a period of more than two years but not exceeding five years	13,818	21,828
Amounts shown under current liabilities (note ii)	107,950	80,616

Notes:

- (i) The amounts due are based on scheduled repayment dates set out in the loan agreements.
- (ii) All the above borrowings contain a repayment on demand clause and therefore are presented as current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

30. BANK BORROWINGS (Continued)

The ranges of effective interest rates per annum on the Group's bank borrowings are as follows:

	At 31 December 2018	2017
Effective interest rates — Variable-rate borrowings	1.62% to 3.71%	1.26% to 2.42%

All the bank borrowings are denominated in HK\$.

As at 31 December 2017, the Group's bank borrowings were secured by structured bank deposits and restricted bank deposits of the Group as set out in notes 21 and 26 respectively. As at 31 December 2017, certain of the Group's bank borrowings were also secured by assets held by the related companies which are controlled by the Controlling Shareholders and guaranteed by the Controlling Shareholders and the related companies which are controlled by the Controlling Shareholders. Those securities and guarantees from the Controlling Shareholders and the related companies have been released and replaced by the corporate guarantee given by the Company upon the listing of the shares of the Company on the Stock Exchange on 16 July 2018.

31. CONTRACT LIABILITIES

	At 31 December 2018 HK\$'000	At 1 January 2018* HK\$'000
Current:		
Denim fabrics	1,029	208

* : The amount in this column is after the adjustment from the application of HKFRS 15.

The balance of contract liabilities at 1 January 2018 has been recognised as revenue during the current year. No revenue recognised in the current year relates to performance obligations that were satisfied in prior year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follow:

— Denim fabrics

The Group normally requires customers to issue letter of credit before delivery. In addition, the Group requires certain PRC customers to pay deposits in advance and have fully settlement of the remaining balance before or upon delivery.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

32. DEFERRED TAX ASSETS/LIABILITIES

The following are the deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	ECL provision HK\$'000	Temporary difference on prepaid lease payments HK\$'000 (note)	Temporary difference on technical knowhow HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2017	–	–	–	(2,022)	(2,022)
Acquisition of subsidiaries (note 41)	–	(4,071)	(919)	–	(4,990)
Credit (charge) to profit or loss	–	66	–	(220)	(154)
At 31 December 2017	–	(4,005)	(919)	(2,242)	(7,166)
Remeasurement of allowance subject to ECL (note 2)	155	–	–	–	155
At 1 January 2018	155	(4,005)	(919)	(2,242)	(7,011)
(Charge) credit to profit or loss	(22)	131	138	(81)	166
At 31 December 2018	133	(3,874)	(781)	(2,323)	(6,845)

Note:

The amounts arise from fair value adjustments on assets recognised in business combination.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 HK\$'000	2017 HK\$'000
Deferred tax assets	133	–
Deferred tax liability	(6,978)	(7,166)
	(6,845)	(7,166)

Under the EIT Law of PRC, the dividends declared by PRC subsidiaries to investors that are non-resident enterprises is subject to PRC withholding tax at a preferential tax rate of 10%. As at 31 December 2018, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK\$24,640,000 (RMB21,053,000) (2017: HK\$16,210,000 (RMB14,161,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

33. SHARE CAPITAL OF THE COMPANY

For the purposes of presentation of the consolidated statement of financial position, the paid-in capital of the Group as at 31 December 2017 of HK\$1,605,000 represents the aggregate share capital of the Company, Hingtex Group Limited ("Hingtex Group"), Kingshine Group, HWT and Kingstead Industrial Limited ("Kingstead Industrial") prior to the completion of the Reorganisation.

	Number of Shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised and issued:		
As at 31 December 2017	100,000	1
Reorganisation Issue (as defined in note i)	400,000	4
Capitalisation Issue (as defined in note ii)	479,500,000	4,795
Issuance of new shares upon listing (note iii)	160,000,000	1,600
As at 31 December 2018	640,000,000	6,400

Notes:

- (i) During the year ended 31 December 2018, for the purpose of the Reorganisation, the Company issued 400,000 new ordinary shares in total to Manford Investment, the immediate and ultimate holding company of the Company, to acquire the entire equity interests in Hingtex Group, Kingshine Group, HWT and Kingstead Industrial (the "Reorganisation Issue"). Such shares rank pari passu in all respects with the then existing shares of the Company. The difference between the aggregate paid-in capital of HK\$1,605,000 as at 31 December 2017 and the paid-in capital of the Company of HK\$5,000 immediately upon the completion of the Reorganisation Issue was accounted for in the other reserves of the Company.
- (ii) Pursuant to the resolution of the Company's sole shareholder, Manford Investment, the Company allotted and issued a total of 479,500,000 new ordinary shares on 13 July 2018 by way of capitalisation of a sum of HK\$4,795,000 reserve of the Company ("Capitalisation Issue"). Such shares rank pari passu in all respects with the then existing shares of the Company. Upon the completion of the Capitalisation Issue, the number of ordinary shares of the Company increased to 480,000,000.
- (iii) In July 2018, upon listing on the Stock Exchange, the Company issued a total of 160,000,000 new ordinary shares. Such shares rank pari passu in all respects with the then existing shares of the Company. The offer price is HK\$1.12 per share and the total proceeds (before payments of listing expenses) from issuance of new shares upon listing are HK\$179,200,000. Upon the completion of the issuance, the number of ordinary shares of the Company increased to 640,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

34. OPERATING LEASE

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2018 was HK\$6,314,000 (2017: HK\$6,821,000). The Group leases various office premises and quarters under non-cancellable operating lease agreements. The lease terms are from 1 to 3 years. Certain office premises and director quarter were leased from related parties of the Group as detailed in note 36.

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

	At 31 December	
	2018	2017
	HK\$'000	HK\$'000
Within one year	8,111	6,240
In the second to the fifth year inclusive	2,757	5,626
	10,868	11,866

35. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK\$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

The Group also participates in a state-managed defined contribution retirement scheme organised by the relevant local governmental authority in the PRC. PRC employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The Group is required to make monthly contributions to the retirement scheme for the eligible employees at specified percentage of the payroll and the local governmental authority is responsible for the pension liabilities to these employees upon their retirement.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the year, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represents contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contribution expense recognised by the Group amounted to HK\$2,828,000 during the year ended 31 December 2018 (2017: HK\$2,155,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS

(a) Related party transactions

The Group entered into the following transactions with its related parties during the current and prior years:

Name of entities	Nature of transaction	2018 HK\$'000	2017 HK\$'000
Joint venture			
KDIL	Service fee income	5,400	5,400
	Purchase of raw materials and related service fee	4,320	4,401
	Royalty fee expense	5,159	4,680
Related parties			
Gain Success International Limited (note i)	Operating lease payments	–	1,320
Star Alliance Holdings Limited (note i)	Operating lease payments	3,832	3,264
Hing Tak Weaving Factory Limited (note i)	Operating lease payments	130	223
Hing Shing (as defined in Note 45) (note ii)	Sub-contracting charges	–	22,815

Notes:

- (i) The Controlling Shareholders have controlling or beneficial interests in these entities.
- (ii) Hing Shing is a wholly-owned subsidiary of Kingshine Investments whereby Kingshine Investments became a subsidiary of the Company since July 2017. Before the acquisition, Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung held a total of 43% equity interest in Kingshine Investments, as such, had significant influence over Kingshine Investments and Hing Shing.

(b) Guarantees granted to a related party

As at 31 December 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK\$21,700,000, of which HK\$20,468,000 had been utilised by the related party. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound. The financial guarantees were released during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Guarantees obtained from related parties

As at 31 December 2017, certain of the secured bank borrowings of the Group were secured by assets held by the related companies which are controlled by the Controlling Shareholders. Certain secured bank borrowings of the Group were guaranteed by the Controlling Shareholders and the related companies which are controlled by the Controlling Shareholders. Those securities and guarantees from the Controlling Shareholders and the related companies have been released and replaced by the corporate guarantee given by the Company upon the listing of the shares of the Company on the Stock Exchange on 16 July 2018.

(d) Compensation of directors and key management personnel

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Salaries and other allowances	16,963	13,382
Retirement benefit scheme contributions	90	90
Other benefits (note)	1,575	3,078
	18,628	16,550

Note:

Other benefit represents rentals for directors' quarters.

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

(e) Related party balances

Details of the outstanding balances with related parties are set out in the consolidated statements of financial position and in notes 24, 25 and 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes bank borrowings and obligations under finance leases net of bank balances and cash, and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group review the capital structure regularly. As part of this review, the management of the Group consider the cost of capital 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 and new share issues as well as the issue of new debt or the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Financial assets:		
Financial assets at amortised cost	247,485	–
Loans and receivables (including cash and cash equivalents)	–	238,980
Financial liabilities:		
Financial liabilities at amortised cost	222,482	267,580

(b) Financial risk management objectives and policies

The Group's financial assets and liabilities mainly include structured bank deposits, trade and other receivables, restricted bank deposits, bank balances and cash, trade and other payables, obligations under financial leases and bank borrowings. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

The Group's exposure to foreign currency risk related primarily to trade and other receivables, amount due from/to a joint venture, amounts due to related companies, amounts due from directors, restricted bank deposits, bank balances and cash, trade and other payables, obligations under financial leases and bank borrowings that are denominated in RMB and HK\$. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	RMB	
	Assets HK\$'000	Liabilities HK\$'000
As at 31 December 2018	15,553	14,409
As at 31 December 2017	15,607	27,090

	HK\$	
	Assets HK\$'000	Liabilities HK\$'000
As at 31 December 2018	157,644	149,377
As at 31 December 2017	35,259	113,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis

The management of the Group considers that the exposure of US\$ against HK\$ is limited as HK\$ is pegged to US\$ and the Group is mainly exposed to the currency risk of RMB against US\$ during the year. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive/negative number below indicates an increase/decrease in post-tax profit where RMB weakened 5% against US\$. For a 5% strengthening of RMB against US\$, there would be an equal and opposite impact on the profit or loss.

	At 31 December	
	2018	2017
	HK\$'000	HK\$'000
RMB	(48)	479

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to restricted bank deposits, structured bank deposits, bank balances and variable rate bank borrowings due to the fluctuation of the prevailing market interest rates. Currently, the Group does not have a specific policy to manage its interest rate risk in respect of the variable rates bank borrowings, but the management will closely monitor interest rate exposures and consider hedging significant interest rate risk should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk *(Continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis points (2017: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for the each of the years ended 31 December 2018 and 2017.

If interest rates had been 50 basis points (2017: 50 basis points) higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 and 2017 would have decreased by:

	At 31 December	
	2018	2017
	HK\$'000	HK\$'000
Decrease in post-tax profit for the year	451	337

The post-tax profit for the year would have increased by the same amount as mentioned above if the interest rates on variable-rate bank borrowings had been 50 basis points lower and all other variables were held constant.

No sensitivity analysis for variable-rate restricted bank deposits, structured bank deposits and bank balances is presented as the management considers that the exposure to the Group is limited during the current and prior years as the management does not anticipate a material change in interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

As at 31 December 2018, the carrying amounts of the financial assets as stated in the consolidated statement of financial position best represent the Group's maximum exposure to credit risk, which will cause financial loss to the Group due to failure to discharge an obligations by the counterparties. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that settlement of most of trade receivables are backed by letter of credit issued by reputable financial institutions.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances (including restricted bank deposit and structured bank deposits) are limited because the counterparties are banks with high credit rating and good reputation.

The Group has concentration of credit risks as 15.44% and 18.9% of the total trade receivable was due from the Group's largest customer, and 45.72% and 61.56% of the total trade receivable was due from the Group's five largest customers, as at 31 December 2018 and 2017, respectively.

Trade and bills receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Credit limits contributed to customers and credit term granted to customers are reviewed regularly. The team also develops/maintains the Group's credit risk grading to categorise exposures according to their degree of risk of default. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group uses provision matrix to calculate ECL for the trade and bills receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the counterparties' past due history, current past due exposure and taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the past due history and current past due exposure are reassessed and changes in the forward-looking information are reconsidered. In addition, trade receivables with significant balances are assessed for ECL individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Very low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – Not credit-impaired	12-month ECL
Low risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – Not credit-impaired	12-month ECL
Fair risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – Not credit-impaired	Lifetime ECL – Not credit-impaired
Substantial risk	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL:

Customer grouping	Internal credit rating	Default rate	Gross carrying amounts HK\$'000	Impairment loss allowance HK\$'000	Net amounts HK\$'000
Customer Group A	Very low risk	0.10%	937	1	936
Customer Group B	Low risk	2.15%	5,884	126	5,758
Customer Group C	Fair risk	18.84%	334	63	271
Customer Group D	Substantial risk	40.31%	795	320	475
Total			7,950	510	7,440

In addition, trade receivables with carrying amount of HK\$15,122,000 are assessed individually and allowance for ECL of HK\$272,000 is recognised as a result. All these receivables are not past due.

The following table provides information about exposure to credit risk for bills receivables which are assessed based on provision matrix as at 31 December 2018 within 12m ECL:

Customer grouping	Internal credit rating	Default rate	Gross carrying amounts HK\$'000	Impairment loss allowance HK\$'000	Net amounts HK\$'000
Customer Group A	Very low risk	0.10%	25,562	23	25,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
As at 31 December 2017 under HKAS 39	–	(222)	(222)
Adjustment upon application of HKFRS 9	(699)	–	(699)
As at 1 January 2018 — As restated	(699)	(222)	(921)
Changes due to financial instruments recognised as at 1 January:			
— impairment losses recognised	(127)	–	(127)
— impairment losses reversed	706	82	788
New financial assets originated	(342)	(180)	(522)
As at 31 December 2018	(462)	(320)	(782)

The following table shows the movement in 12m ECL that has been recognised for bills receivables under the general approach.

	12m ECL HK\$'000
As at 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	(20)
As at 1 January 2018 — As restated	(20)
Changes due to financial instruments recognised as at 1 January:	
— impairment losses reversed	20
New financial assets originated	(23)
As at 31 December 2018	(23)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Other financial assets subject to ECL assessment:

For other receivables, the Group has applied the general approach in HKFRS 9 to measure the loss allowance approximate to such at 12m ECL, since the directors of the Company did not expect any significant increase in credit risk. The ECL on other receivables are assessed collectively using the provision matrix, which is based on the counterparties' past due history, current past due exposure and taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort.

For structured bank deposits, restricted bank deposits and bank balances and cash, since they deposited with reputable banks of good credit quality, the directors of the Company considered the credit risk of these items is insignificant and no impairment was provided on these items at the year end.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities and financial guarantee contract based on the agreed repayment terms. The table has 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 table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2018						
Trade and other payables	–	70,380	38,124	–	108,504	108,504
Amount due to a joint venture	–	166	–	–	166	166
Bank borrowings — variable rate	3.50%	107,950	–	–	107,950	107,950
Obligations under finance leases	4.61%	681	2,046	3,470	6,197	5,862
		179,177	40,170	3,470	222,817	222,482

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2017						
Trade and other payables	–	105,719	78,133	–	183,852	183,852
Amount due to a related company	–	739	–	–	739	739
Bank borrowings — variable rate	1.90%	80,616	–	–	80,616	80,616
Financial guarantee contract	–	20,468	–	–	20,468	–
Obligations under finance leases	2.97%	399	872	1,163	2,434	2,373
		207,941	79,005	1,163	288,109	267,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Bank borrowings with a repayment on demand clause are included in the “on demand or less than 3 month” time band in the above maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$107,950,000 (2017: HK\$80,616,000). Taking into account the Group’s financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank and other borrowings will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements and accordingly, the aggregate principal and interest cash outflows will amount to HK\$111,507,000 (2017: HK\$82,637,000), details of which are set out in the table below:

Maturity Analysis — Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1–2 years HK\$'000	2–5 years HK\$'000	Total undiscounted cash outflows HK\$'000	Carrying amount HK\$'000
31 December 2018	70,366	10,240	16,786	14,115	111,507	107,950
31 December 2017	33,203	17,381	9,580	22,473	82,637	80,616

The amount included above for financial guarantee contract is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the management of the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable rate instruments are subject to change if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The management of the Group considers that the carrying amounts of financial assets and financial liabilities of the Group measured at amortised cost in the consolidated financial statement at the end of each reporting period approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. CONTINGENT LIABILITIES

As at 31 December 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK\$21,700,000, of which HK\$20,468,000 had been utilised by the related party. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound. The financial guarantees were released during the current year.

40. PLEDGED ASSETS

The carrying amounts of pledged assets at the end of each reporting period are stated below:

	At 31 December	
	2018	2017
	HK\$'000	HK\$'000
Property, plant and equipment (note)	7,317	4,746
Structured bank deposits	–	7,800
Restricted bank deposits	4,054	19,435
	11,371	31,981

Note:

The pledged amounts of property, plant and equipment represent the net book value of motor vehicles held under finance leases.

41. ACQUISITION OF SUBSIDIARIES IN PRIOR YEAR

Kingshine Investments was incorporated in Hong Kong with limited liability on 6 June 2001. Immediately prior to the acquisition of the shareholdings as more fully explained below, Kingshine Investments was owned as to 32% by Mr. B, 25% by Ms. A, 16% by Mr. TH Tung, 13.5% by Mr. Stephen Tung and 13.5% by Mr. Stanley Tung.

On 7 July 2017, Kingshine Group entered into a sale and purchase agreement with each of Mr. B and Ms. A, pursuant to which Kingshine Group acquired 3,200,000 shares and 2,500,000 shares, representing 32% and 25% of the entire issued share capital of Kingshine Investments from Mr. B and Ms. A (collectively the "Ex-Shareholders") at a consideration of HK\$17,100,000 and HK\$13,359,375, respectively (the "Acquisition"). The aforesaid consideration consists of HK\$13,488,432 for the acquisition of the 57% equity interest in Kingshine Investments and assumption of the amounts due to the Ex-Shareholders of HK\$16,970,943. This Acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the Acquisition was HK\$1,184,000. Kingshine Investments is engaged in the dyeing and finishing processes and was acquired so as to strengthen the control over Kingshine Investments and streamline the whole denim fabric production process of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

41. ACQUISITION OF SUBSIDIARIES IN PRIOR YEAR *(Continued)*

Fair value of assets and liabilities recognised at the date of acquisition are as follows:

	HK\$'000
Prepaid lease payments	18,414
Property, plant and equipment	18,654
Intangible assets	3,675
Inventories	6,554
Trade and other receivables (Note)	2,440
Amount due from related companies (Note)	3,144
Cash and cash equivalents	7,587
Trade and other payables	(1,611)
Amounts due to the directors of the Company	(15,310)
Amounts due to Ex-Shareholders	(16,971)
Deferred tax liabilities	(4,990)
Net assets	21,586

Note:

The amounts represented the fair value of the receivables acquired in these transactions, which approximate the gross contractual amounts of these receivables. As at acquisition date, no contractual cash flows was expected to be unrecoverable.

	HK\$'000
Goodwill arising on acquisition:	
Consideration for the 57% equity interest	13,488
Plus: non-controlling interests (note)	9,282
Less: net assets acquired	(21,586)
Goodwill arising on acquisition	1,184

Note:

The non-controlling interests represented the 43% equity interest held by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung at the date of the Acquisition. On 23 March 2018, through a share swap agreement, Kingshine Group acquired their respective equity interest, representing 16.0%, 13.5% and 13.5% of the entire issued share capital of Kingshine Investments from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung respectively. As such, the equity interest held by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung prior to the Acquisition totaling HK\$9,282,000 was recognised as deemed contribution from shareholders in other reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

41. ACQUISITION OF SUBSIDIARIES IN PRIOR YEAR *(Continued)*

The acquisition-related costs are not material and have been recognised as an expense in the profit or loss for the year ended 31 December 2017.

	HK\$'000
Cash consideration	13,488
Less: Consideration payable (note 27)	(6,840)
Less: Cash and cash equivalents balances acquired	(7,587)
Net cash inflow on acquisition	(939)
Repayments of amounts due to Ex-shareholders	16,971
	16,032

Impact of the Acquisition on the results of the Group

Included in the profit for the year ended 31 December 2017 is a loss of HK\$3,000 attributable to the additional business generated by Kingshine Investments and its subsidiaries. Revenue for the year ended 31 December 2017 includes HK\$5,757,000 generated by Kingshine Investments and its subsidiaries.

Had the Acquisition been effected at the beginning of the year ended 31 December 2017, the total amount of revenue of the Group for the year ended 31 December 2017 would have been HK\$666,450,000, and the amount of the profit for the year ended 31 December 2017 would have been HK\$125,237,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed at the beginning of the year ended 31 December 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" information set out above, revenue and profit of the Group had the Acquisition been completed at the beginning of the year ended 31 December 2017, the directors of the Company calculated depreciation and amortisation of property, plant and equipment and land use rights based on the recognised amounts of property, plant and equipment at the date of the Acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 HK\$'000	Financing cash flows HK\$'000	Non-cash changes HK\$'000 (note i)	Dividend declared HK\$'000	Other changes HK\$'000 (note ii)	31 December 2018 HK\$'000
Amounts due to a related company	739	(739)	–	–	–	–
Bank borrowings (note iii)	80,616	24,085	–	–	3,249	107,950
Obligations under finance leases (note iv)	2,373	(2,938)	6,319	–	108	5,862
Deferred listing expenses	–	(11,923)	–	–	11,923	–
Dividend paid	–	(72,459)	(27,541)	100,000	–	–
Total	83,728	(63,974)	(21,222)	100,000	15,280	113,812

	1 January 2017 HK\$'000	Financing cash flows HK\$'000	Non-cash changes HK\$'000 (note i)	Other changes HK\$'000 (note ii)	31 December 2017 HK\$'000
Amounts due to related companies (non-trade)	968	(229)	–	–	739
Amounts due to directors	1,055	(16,365)	15,310	–	–
Bank borrowings (note iii)	35,854	43,609	–	1,153	80,616
Obligations under finance leases (note iv)	1,214	(2,298)	3,338	119	2,373
Total	39,091	24,717	18,648	1,272	83,728

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

Notes:

- (i) Non-cash changes represent the effects of addition of property, plant and equipment through finance leases, offset against a special dividend (note 43) and addition of amounts due to directors arising from acquisition of subsidiaries (note 41).
- (ii) Other changes represent the interest expenses of bank borrowings and obligations under finance leases recognised during both years, and capitalisation of listing expenses during the current year.
- (iii) The cash flows from bank borrowings comprise the net amount of new borrowings raised and repayment of principal and interest of bank borrowings paid during the year.
- (iv) The cash flows of obligations under finance leases represent repayments of principal and interest during the year.

43. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2018 and 2017, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$6,319,000 and HK\$3,338,000 respectively.

Pursuant to the settlement agreements signed between the Group and the Controlling Shareholders, the amounts due from related companies of HK\$290,097,000 and amounts due from directors of HK\$9,903,000 outstanding as at 31 December 2017 have been offset against the interim dividend of HK\$300,000,000 declared by HWT to its then shareholders, known as the Controlling Shareholders.

In May 2018, a special dividend amounting to HK\$100,000,000 was recognised as distribution of the Company to its shareholders. Pursuant to the settlement agreements signed between the Group and the Controlling Shareholders, the amounts due from directors of HK\$27,541,000 were offset against such special dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Non-Current asset		
Investment in a subsidiary	4	–
Amounts due from subsidiaries	113,080	–
	113,084	–
Current assets		
Prepayment, deposits and other receivables	240	–
Bank balances and cash	36,729	–
Deferred listing expenses	–	976
	36,969	976
Current liabilities		
Accruals and other payables	659	–
Amount due to a subsidiary	–	6,398
	659	6,398
Net current assets (liabilities)	36,310	(5,422)
Total assets less current liabilities	149,394	(5,422)
Net assets (liabilities)	149,394	(5,422)
Capital and reserve		
Share capital	6,400	1
Share premium	164,701	–
Reserves (note)	(21,707)	(5,423)
Total equity	149,394	(5,422)

Note:

Reserves	Other reserve HK\$'000	Accumulated deficits HK\$'000	Total HK\$'000
Balance at 1 January 2018	–	(5,423)	(5,423)
loss and total comprehensive expense for the year	–	(11,489)	(11,489)
Capitalisation Issue (note 33)	(4,795)	–	(4,795)
Balance at 31 December 2018	(4,795)	(16,912)	(21,707)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

Details of the principal subsidiaries held by the Company as at 31 December 2018 and 2017 are set out below.

Name of subsidiary	Principal activity	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Company	
				2018 %	2017 %
Indirectly:					
HWT	Design, trading of denim fabric and investment holding	Hong Kong	HK\$1,500,000	100.00	100.00
Kingstead Industrial	Trading of denim fabric and investment holding	Hong Kong	HK\$100,000	100.00	100.00
Zhongshan Hing Tak Weaving and Dyeing Limited 中山興德紡織 漿染有限公司 ("Hing Tak")*	Manufacturing and trading of denim fabric	The PRC	HK\$25,000,000	100.00	100.00
Zhongshan Hing Shing Finishing and Dyeing Limited 中山市興盛漿染 整理有限公司 ("Hing Shing")**/**	Provision of sizing, dyeing and finishing services on denim fabric	The PRC	HK\$25,000,000	100.00	100.00

*: The subsidiary is a wholly foreign owned enterprise established in the PRC. The English name of the entity is for identification only. The official name of the entity is in Chinese.

** : The Group acquired Kingshine Investments, which is the immediate holding company of Hing Shing in July 2017, details of which are set out in Note 41.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

FINANCIAL SUMMARY

The following table summarizes the consolidated results, assets and liabilities of the Group for the four years ended 31 December:

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Results				
Revenue	640,724	648,219	475,039	400,556
Profit before tax	91,930	151,695	108,956	114,970
Income tax expense	(19,129)	(25,217)	(17,106)	(11,008)
Profit and total comprehensive income for the year attributable to owners of the Company	72,801	126,478	91,850	103,962
Assets				
Non-current assets	127,911	150,381	346,221	326,045
Current assets	543,225	453,666	331,668	277,476
Total assets	671,136	604,047	677,889	603,521
Liabilities				
Non-current liabilities	(10,330)	(8,319)	(2,131)	(3,128)
Current liabilities	(231,781)	(305,241)	(221,036)	(217,138)
Total liabilities	(242,111)	(313,560)	(223,167)	(220,266)
Capital and reserves				
Equity attributable to owners of the Company and total equity	429,025	290,487	454,722	383,255
Current ratio (current assets/current liabilities)	2.34	1.49	1.50	1.28
Gearing ratio (total bank borrowings, obligations under finance leases/total equity)	26.5%	28.6%	8.5%	9.6%

The results of the Group for the financial year ended 31 December 2018 and its assets and liabilities as at 31 December 2018 are set forth on pages 38 to 119, and are presented on the basis set out in note 1 to the consolidated financial statements.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tung Tsun Hong (*Chairman*)
Mr. Tung Wai Ting Stephen
Mr. Tung Cheuk Ming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Bin Gilbert
Mr. Cheung Che Kit Richard
Mr. Leung Wang Ching Clarence, *J.P.*

COMPANY SECRETARY

Mr. Cheung Ka Chun

AUDIT COMMITTEE

Mr. Tsang Ling Biu Gilbert (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Leung Wang Ching Clarence, *J.P.*

REMUNERATION COMMITTEE

Mr. Leung Wang Ching Clarence, *J.P.* (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Tung Wai Ting Stephen

NOMINATION COMMITTEE

Mr. Leung Wang Ching Clarence, *J.P.* (*Chairman*)
Mr. Cheung Che Kit Richard
Mr. Tung Cheuk Ming Stanley

AUTHORISED REPRESENTATIVES

Mr. Tung Wai Ting Stephen
Mr. Cheung Ka Chun

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