Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 458)

ANNOUNCEMENT OF 2019 ANNUAL RESULTS

FINANCIAL SUMMARY OF 2019 ANNUAL RESULTS

- Revenue of HK$3,001 million
- Loss attributable to equity shareholders of HK$38.8 million
- Loss per share of HK$0.14

RESULTS

The board of directors (the "Board") of Tristate Holdings Limited (the "Company") presents the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2019 together with comparative figures for 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	**2019** **HK$'000**	2018 *(Note)* *HK$'000*
Revenue	3	**3,001,253**	2,578,322
Cost of sales		**(2,172,630)**	(1,958,175)
Gross profit		**828,623**	620,147
Other income and other gains	4	**17,101**	3,430
Selling and distribution expenses		**(330,880)**	(208,697)
General and administrative expenses		**(494,885)**	(471,364)
Profit/(loss) from operations	5	**19,959**	(56,484)
Finance income	6	**1,930**	3,574
Finance costs	6	**(34,119)**	(17,928)
Loss before taxation		**(12,230)**	(70,838)
Income tax charge	7	**(24,707)**	(8,995)
Loss for the year		**(36,937)**	(79,833)
Attributable to:			
Equity shareholders of the Company		**(38,829)**	(80,455)
Non-controlling interests		**1,892**	622
Loss for the year		**(36,937)**	(79,833)
Loss per share attributable to equity shareholders of the Company:			
Basic	9	**HK$(0.14)**	HK$(0.30)
Diluted	9	**HK$(0.14)**	HK$(0.30)

Details of dividends payable to equity shareholders of the Company are set out in note 8.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
		(Note)
	HK$'000	*HK$'000*
Loss for the year	**(36,937)**	(79,833)
Other comprehensive income, net of nil tax unless specified:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes on cash flow hedges:		
Losses arising during the year	**(7,402)**	(14,477)
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	**8,510**	5,464
General and administrative expenses	**2,521**	3,242
Realisation of exchange reserve upon disposal of a subsidiary	**(390)**	–
Exchange difference on translation of financial statements of overseas subsidiaries	**(3,063)**	(32,446)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans and long service payment liabilities	**(5,418)**	399
Income tax effect	**690**	(187)
Other comprehensive income for the year	**(4,552)**	(38,005)
Total comprehensive income for the year	**(41,489)**	(117,838)
Attributable to:		
Equity shareholders of the Company	**(43,381)**	(118,460)
Non-controlling interests	**1,892**	622
Total comprehensive income for the year	**(41,489)**	(117,838)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note(s)	As at 31 December 2019 HK$'000	As at 31 December 2018 (Note) HK$'000
Non-Current Assets			
Property, plant and equipment	2 & 10	**652,354**	308,963
Leasehold land and land use rights	2 & 10	**–**	126,310
Intangible assets		**455,674**	491,905
Other long-term assets		**27,223**	13,006
Deferred tax assets		**3,490**	5,230
Defined benefit plan assets		**8,704**	7,930
Forward foreign exchange contracts		**3**	964
Interest in an associate		**–**	–
		1,147,448	954,308
Current Assets			
Inventories		**413,974**	402,939
Accounts receivable and bills receivable	11	**352,705**	297,609
Forward foreign exchange contracts		**516**	449
Prepayments and other receivables		**76,546**	74,337
Current tax recoverable		**107**	258
Cash and bank balances		**285,363**	321,892
		1,129,211	1,097,484
Current Liabilities			
Accounts payable and bills payable	12	**179,110**	166,179
Accruals and other payables and contract liabilities		**269,277**	245,689
Lease liabilities	2	**70,286**	–
Forward foreign exchange contracts		**7,344**	8,350
Current tax liabilities		**34,347**	13,078
Bank borrowings		**64,540**	73,792
		624,904	507,088
Net Current Assets		**504,307**	590,396
Total Assets Less Current Liabilities		**1,651,755**	1,544,704
Non-Current liabilities			
Retirement benefits and other post retirement obligations		**43,677**	26,486
Licence fees payable		**301,704**	310,548
Lease liabilities	2	**144,597**	–
Deferred tax liabilities		**23,512**	25,148
Forward foreign exchange contracts		**1,661**	5,178
		515,151	367,360
Net Assets		**1,136,604**	1,177,344
Capital and Reserves			
Share capital		**27,161**	27,161
Reserves		**1,109,877**	1,152,509
Total equity attributable to equity shareholders of the Company		**1,137,038**	1,179,670
Non-controlling interests		**(434)**	(2,326)
Total Equity		**1,136,604**	1,177,344

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

Notes:

1. Statement of Compliance and Basis of Preparation of the Financial Statements

The consolidated results set out in this announcement do not constitute the Group's annual consolidated financial statements for the year ended 31 December 2019 but are extracted from those financial statements.

The basis of preparation and significant accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments and structured bank deposits are stated at their fair values.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2. Changes in Accounting Policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. Changes in Accounting Policies (Continued)

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019. The Group has elected to use the modified retrospective approach. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.51%.

2. **Changes in Accounting Policies (Continued)**

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in the 2018 annual consolidated financial statements to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *HK$'000*
Operating lease commitment at 31 December 2018	92,504
Less: short-term leases and other leases with remaining lease term ending on or before 31 December 2019 exempt from capitalisation	(13,159)
Add: lease payments for the additional periods where the Group considers it reasonably certain it will not exercise early termination options	119,010
	198,355
Less: total future interest expenses	(50,486)
Total lease liabilities recognised at 1 January 2019	147,869

The right-of-use assets in relation to lease previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

2. **Changes in Accounting Policies (Continued)**

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *HK$'000*	**Capitalisation of operating lease contracts** *HK$'000*	**Carrying amount at 1 January 2019** *HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16			
Property, plant and equipment	308,963	272,385	581,348
Leasehold land and land use rights	126,310	(126,310)	–
Total non-current assets	**954,308**	**146,075**	**1,100,383**
Accruals and other payables and contract liabilities	245,689	(1,794)	243,895
Lease liabilities	–	32,109	32,109
Current liabilities	**507,088**	**30,315**	**537,403**
Net current assets	**590,396**	**(30,315)**	**560,081**
Total assets less current liabilities	**1,544,704**	**115,760**	**1,660,464**
Lease liabilities (non-current)	–	115,760	115,760
Total non-current liabilities	**367,360**	**115,760**	**483,120**
Net assets	**1,177,344**	**–**	**1,177,344**

2. Changes in Accounting Policies (Continued)

(c) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This has impacted the reported results in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019					2018
	Amounts reported under HKFRS 16 (A) *HK$'000*	**Add back: HKFRS 16 depreciation and interest expense** (B) *HK$'000*	**Deduct: HKFRS16 depreciation related to prepaid leasehold land and land use rights** (C) *HK$'000*	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** *(Note 1)* (D) *HK$'000*	**Hypothetical amounts for 2019 as if under HKAS 17** (A + B + C + D) *HK$'000*	**Compared to amounts reported for 2018 under HKAS 17** *HK$'000*
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16						
Profit/(loss) from operations	**19,959**	**69,895**	**(3,468)**	**(72,496)**	**13,890**	**(56,484)**
Finance costs	(34,119)	8,807	–	–	(25,312)	(17,928)
Loss before taxation	**(12,230)**	**78,702**	**(3,468)**	**(72,496)**	**(9,492)**	**(70,838)**
Loss for the year	**(36,937)**	**78,702**	**(3,468)**	**(72,496)**	**(34,199)**	**(79,833)**
Loss attributable to equity shareholders	**(38,829)**	**78,336**	**(3,468)**	**(72,174)**	**(36,135)**	**(80,455)**
Reportable segment profit/(loss) (adjusted EBITDA) for year ended 31 December 2019 impacted by the adoption of HKFRS 16						
– Garment manufacturing	192,006	–	–	(8,236)	183,770	143,685
– Brands business	(32,020)	–	–	(52,114)	(84,134)	(120,172)
– Unallocated	28,300	–	–	(12,146)	16,154	2,035
– Total	**188,286**	**–**	**–**	**(72,496)**	**115,790**	**25,548**

2. **Changes in Accounting Policies (Continued)**

	2019			2018
	Amounts reported under HKFRS 16 (A) *HK$'000*	**Estimated amounts related to operating leases as if under HKAS 17** *(Notes 1 & 2)* (B) *HK$'000*	**Hypothetical amounts for 2019 as if under HKAS 17** (C=A+B) *HK$'000*	**Compared to amounts reported for 2018 under HKAS 17** *HK$'000*
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	127,682	(72,496)	55,186	(112,604)
Net cash generated from/(used in) operating activities	**124,341**	**(72,496)**	**51,845**	**(113,804)**
Capital element of lease rentals paid	(63,689)	63,689	–	–
Interest element of lease rentals paid	(8,807)	8,807	–	–
Net cash used in financing activities	**(85,880)**	**72,496**	**(13,384)**	**(29,332)**

Notes:

1. The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

2. In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

3. **Revenue and Segment Reporting**

(a) Revenue

The principal activities of the Group are (i) garment manufacturing, and (ii) brands business.

Revenue represents the fair value of the consideration received or receivable from products sold, excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from sales of goods was recognised at point in time for the year ended 31 December 2019 and 2018.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2019, none of the remaining performance obligations under the Group's existing contracts had an original expected duration of more than one year.

For remaining performance obligations of existing contracts that had had an original expected duration of one year or less, the Group has applied the practical expedient in paragraph 121 of HKFRS 15 such that it does not include information about revenue for the remaining performance obligations under the contracts.

3. **Revenue and Segment Reporting (Continued)**

(b) Segment reporting

Reportable segments are reported in the manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management collectively) in order to assess performance and allocate resources. The Group manages its business by business units, which are organised by business lines and geography. The Group identified two reportable segments: (i) garment manufacturing and (ii) brands business. The chief operating decision makers assess the performance of the reportable segments and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to profit/loss for the year of that reportable segment.

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

	Garment manufacturing		**Brands business**		**Unallocated** *(Note (iii))*		**Total**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
		(Note (i))		*(Note (i))*		*(Note (i))*		*(Note (i))*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**2,317,835**	2,172,889	**690,766**	419,899	**–**	–	**3,008,601**	2,592,788
Less: Inter-segment revenue	**(7,065)**	(14,466)	**(283)**	–	**–**	–	**(7,348)**	(14,466)
Revenue	**2,310,770**	2,158,423	**690,483**	419,899	**–**	–	**3,001,253**	2,578,322
Reportable segment EBITDA *(Note (ii))*	**192,006**	143,685	**(32,020)**	(120,172)	**28,300**	2,035	**188,286**	25,548
Finance income	**–**	–	**583**	107	**1,347**	3,467	**1,930**	3,574
Finance costs								
– Interest on bank borrowings	**–**	–	**–**	–	**(4,132)**	(4,253)	**(4,132)**	(4,253)
– Interest on licence fees payable	**–**	–	**(21,180)**	(13,675)	**–**	–	**(21,180)**	(13,675)
– Interest on lease liabilities	**(2,740)**	–	**(5,520)**	–	**(547)**	–	**(8,807)**	–
Depreciation charge								
– Own property, plant and equipment	**(28,817)**	(31,456)	**(20,247)**	(12,064)	**(13,216)**	(14,104)	**(62,280)**	(57,624)
– Right-of-use assets	**(6,636)**	–	**(51,959)**	–	**(11,300)**	–	**(69,895)**	–
Amortisation of leasehold land and land use rights *(Note (i))*	**–**	(311)	**–**	–	**–**	(3,308)	**–**	(3,619)
Amortisation of intangible assets								
– Licence rights	**–**	–	**(31,585)**	(20,718)	**–**	–	**(31,585)**	(20,718)
– Other intangible assets	**–**	–	**(67)**	(71)	**–**	–	**(67)**	(71)
Impairment of property, plant and equipment	**–**	–	**(4,500)**	–	**–**	–	**(4,500)**	–
Reportable segment profit/(loss) before tax	**153,813**	111,918	**(166,495)**	(166,593)	**452**	(16,163)	**(12,230)**	(70,838)
Income tax (charge)/credit	**(18,297)**	(14,934)	**(10,821)**	(380)	**4,411**	6,319	**(24,707)**	(8,995)
Reportable segment profit/(loss) for the year	**135,516**	96,984	**(177,316)**	(166,973)	**4,863**	(9,844)	**(36,937)**	(79,833)

3. Revenue and Segment Reporting (Continued)

Notes:

(i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

(ii) EBITDA is defined as earnings before finance income, finance costs, income tax (charge)/credit, depreciation and amortisation. EBITDA is a non-HKFRS measure used by management for monitoring business performance. It may not be comparable to similar measures presented by other companies.

(iii) Unallocated segment profit or loss mainly include net gain on disposal of a subsidiary, income and expenses arising from unallocated assets and liabilities for corporate purposes and head office expenses.

	Garment manufacturing		**Brands business**		**Unallocated** *(Note (ii))*		**Total**	
	As at 31 December 2019	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**799,821**	801,906	**1,064,468**	803,795	**412,370**	446,091	**2,276,659**	2,051,792
Reportable segment liabilities	**366,291**	332,362	**698,758**	468,294	**75,006**	73,792	**1,140,055**	874,448

	Garment manufacturing		**Brands business**		**Unallocated** *(Note (ii))*		**Total**	
	2019	2018 *(Note (i))*	**2019**	2018 *(Note (i))*	**2019**	2018 *(Note (i))*	**2019**	2018 *(Note (i))*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Provision for impairment of receivables, net	**(8)**	(472)	**(5,781)**	(497)	**–**	–	**(5,789)**	(969)
(Write-down)/reversal of write-down of inventories to net realisable value, net	**(15,206)**	(13,612)	**7,750**	(16,251)	**–**	–	**(7,456)**	(29,863)
Additions to property, plant and equipment and intangible assets	**20,701**	25,337	**184,170**	353,388	**17,875**	3,257	**222,746**	381,982

3. Revenue and Segment Reporting (Continued)

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America ("US"), the United Kingdom ("UK") and Canada, while the Group's production facilities, trademark, licence rights and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland China, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by locations of physical assets or the asset holding companies are as follows:

	PRC		US		UK		Canada		Other countries		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**500,214**	355,118	**535,341**	558,463	**809,073**	685,227	**415,021**	396,203	**741,604**	583,311	**3,001,253**	2,578,322

Included in revenue derived from the PRC was HK$245,905,000 (2018: HK$250,243,000) which was generated in Hong Kong.

For the year ended 31 December 2019, revenue from three (2018: three) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 17%, 11% and 11% (2018: 16%, 15% and 13%) of the total revenue respectively.

	PRC		Luxembourg		Thailand		Other countries		Total	
	As at 31 December 2019	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*	**As at 31 December 2019**	As at 31 December 2018 *(Note (i))*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets *(Note (iii))*	**734,887**	630,541	**171,344**	175,919	**75,116**	70,467	**153,904**	63,257	**1,135,251**	940,184

Included in non-current assets located in the PRC was HK$312,934,000 (2018: HK$324,881,000) which was related to assets located in Hong Kong.

Notes:

(i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

(ii) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings and property, plant and equipment for corporate purposes.

(iii) Non-current assets exclude deferred tax assets, defined benefit plan assets and foreign forward exchange contracts.

4. Other Income and Other Net Gains

	2019	2018
	HK$'000	*HK$'000*
Net gain on disposal of a subsidiary *(Note (i))*	**10,914**	–
Government subsidies *(Note (ii))*	**1,508**	1,120
Net loss on disposals of property, plant and equipment	**(51)**	(65)
Sundry income	**4,730**	2,375
	17,101	3,430

Notes:

(i) During the year, the Group disposed of a wholly-owned subsidiary incorporated in the Philippines at a consideration of HK$16,725,000, with a net gain of HK$10,914,000 after net-off with transaction cost of HK$3,355,000. Out of the total consideration of HK$16,725,000, a retention money of HK$1,520,000 will be received by the Group in 2024 while consideration of HK$15,205,000 has been received in 2019. The subsidiary was the owner of a parcel of land and certain factory buildings in the Philippines, and had been inactive in early years.

(ii) The Group received HK$1,508,000 (2018: HK$1,120,000) government subsidies from the PRC government during the year ended 31 December 2019. There were no unfulfilled conditions and other contingencies attached to the receipts of these government subsidies. There is no assurance that the Group will continue to receive such government subsidies in the future.

5. Profit/(Loss) from Operations

Profit/(loss) from operations is arrived at after charging/(crediting):

	2019	2018
	HK$'000	*HK$'000*
Amortisation of leasehold land and land use rights*	**–**	3,619
Amortisation of intangible assets	**31,652**	20,789
Depreciation charge		
– Own property, plant and equipment	**62,280**	57,624
– Right-of-use assets*	**69,895**	–
Variable lease payments not included in the measurement of lease liabilities	**8,299**	6,388
Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**10,819**	–
Minimum lease payments for leases previously classified as operating leases under HKAS 17*	**–**	51,277
Provision for impairment of receivables, net	**5,789**	969
Impairment of property, plant and equipment	**4,500**	–
Cost of inventories	**2,172,630**	1,958,175
Employee benefit expenses	**773,927**	716,652
Net exchange loss/(gain)	**5,550**	(4,987)
Auditor's remuneration		
Audit services	**3,660**	3,703
Others	**1,030**	751

5. Profit/(Loss) from Operations (Continued)

* *The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.*

6. Finance Income/Finance Costs

	2019	2018
		(Note)
	HK$'000	*HK$'000*
Finance income		
Interest income from bank deposits	**1,347**	3,467
Imputed interest on long-term rental deposits	**583**	107
	1,930	3,574
Finance costs		
Interest on licence fees payable	**21,180**	13,675
Interest on lease liabilities	**8,807**	–
Interest on bank borrowings	**4,132**	4,253
	34,119	17,928

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

7. Income Tax Charge

	2019	2018
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**(12,364)**	(6,654)
Non-Hong Kong tax	**(12,612)**	(3,176)
Over-provisions of prior years	**240**	36
	(24,736)	(9,794)
Deferred tax	**29**	799
	(24,707)	(8,995)

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% of the estimated assessable profits for the year, except one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime (2018: 16.5%, except for one subsidiary of the Group under the two-tiered profits tax rate regime).

For this subsidiary, the first HK$2,000,000 of assessable profits is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

8. Dividend

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

9. Loss Per Share

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company of HK$38,829,000 (2018: HK$80,455,000) by the weighted average number of 271,607,253 (2018: 271,607,253) ordinary shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

During the years ended 31 December 2019 and 2018, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the years ended 31 December 2019 and 2018.

10. Property, Plant and Equipment/Leasehold Land and Land Use Rights

	31 December 2019	31 December 2018 *(Note)*
	HK$'000	*HK$'000*
Right-of-use assets		
Assets reclassified from leasehold land and land use rights	**120,346**	–
Properties leased for own use	**205,433**	–
Other leased assets	**1,134**	–
	326,913	–
Other property, plant and equipment	**325,441**	308,963
Property, plant and equipment	**652,354**	308,963
Leasehold land and land use rights	**–**	126,310

Note: As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17.

11. Accounts Receivable and Bills Receivable

As of the end of the reporting period, the ageing of accounts receivable and bills receivable based on invoice date is as follows:

	2019 *HK$'000*	2018 *HK$'000*
Less than 3 months	**342,757**	295,927
3 months to 6 months	**9,948**	1,682
Over 6 months	**7,199**	1,790
	359,904	299,399
Less: Loss allowance	**(7,199)**	(1,790)
	352,705	297,609

The majority of accounts receivable are with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 30 to 60 days. All of the accounts receivable and bills receivable are expected to be recovered within one year.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security.

12. Accounts Payable and Bills Payable

As of the end of the reporting period, the ageing of accounts payable and bills payable based on invoice date is as follows:

	2019 *HK$'000*	2018 *HK$'000*
Less than 3 months	**167,484**	147,661
3 months to 6 months	**2,372**	11,895
Over 6 months	**9,254**	6,623
	179,110	166,179

The majority of payment terms with suppliers are within 60 days. All of the accounts payable and bills payable are expected to be settled within one year or are on demand.

The carrying amounts of accounts payable and bills payable approximate their fair values.

13. Capital Commitments

The Group was committed at 31 December 2019 to enter into a lease of 4 years that is not yet commenced, the lease payments under which amounted to HK$3,831,000 per annum. Except for the above, the Group had no capital commitments as at 31 December 2019 and 2018.

14. Comparative Figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2019.

Overview

The Group's 2019 performance continues to reflect our dedication to investment in brands business with the support from our garment manufacturing business.

For the financial year 2019, the Group recorded growth in revenue to HK$3,001 million from HK$2,578 million in 2018, and EBITDA of HK$188 million as compared to EBITDA of HK$26 million in 2018. The loss attributable to equity shareholders reduced to HK$39 million as compared with a loss of HK$80 million in 2018.

The Group adopted HKFRS 16 and changed its accounting policy on leases from 1 January 2019. If applying the previous accounting standard on leases for direct comparison purposes, the Group would have reported EBITDA in 2019 of HK$116 million (2018: HK$26 million) and loss attributable to equity shareholders of HK$36 million (2018: HK$80 million).

The improved 2019 results were mainly attributable to the continued good performance of our garment manufacturing business and our premium Italian sportswear brand C.P. Company; and offset by the investment in developing our licensed brands, Nautica and Spyder.

Despite reporting a positive EBITDA, the Group reported a loss attributable to equity shareholders, which is mainly caused by brands licence right amortisation and imputed interest on licence fees payable totalling HK$53 million (2018: HK$34 million), depreciation on own property, plant and equipment and income tax for the year.

Own Brands

C.P. Company continued to report strong year-on-year growth in revenue with increased profitability. Revenue in year 2019 increased by 45% over 2018. Wholesale channel continued to pose strong growth in particular for sales to the UK, Italy, South Korea and France. UK and Italy remained the largest contributors accounted for over 50% of the C.P. Company revenue. Brand awareness, measured with the digital KPI (such as number of Google searches for the brand, social media growth and engagement) continued to grow fast worldwide. To complement the wholesale business, direct retail started in 2019 with the opening of Milan flagship store, Foxtown Mendrisio outlet and Beijing flagship. Retail expansion is strategical to build further brand awareness and allows us to collect and leverage end-consumer data (socio-demographic info, shopping preferences, interests, etc) to enhance client lifetime value. E-commerce has been performing well and there are still strong growth opportunities.

In 2019, C.P. Company marketing campaign kicked-off a two-season collaboration with hip hop Artist Rejjie Snow. The brand also had a successful launch of SS19 collaboration with Patta, an Amsterdam based retailer relevant in street culture. Co-labs enable us to unlock new targets, expand the territory and help the brand to reposition on key markets. Our marketing campaign "#EyesOnTheCity" continued to develop lifestyle communication featuring the brand's ambassadors around the world and their own unique vision on the city and the urban environment. Our design stories in the Proprietary Technologies series explain in detail about our products, innovation and garment know-how season by season.

Our unique French concept premium ladies wear Cissonne achieved good traction in the China premium ladies fashion market. The brand gradually expanded through direct retailing in China major cities with increasing sell-through. The brand has now five stores located in Shanghai Kerry Centre, Shanghai Grand Gateway 66, Beijing Oriental Plaza, Beijing China World Trade Center and Shanghai Zhenning Road respectively.

Licensed Brands

In 2018, the Group took major steps towards establishing a long-term, sustainable business platform by entering into long-term licence agreements with Authentic Brands Group for two well-known, established international brands, Nautica and Spyder. For Nautica, the licensed territories include Mainland China, Hong Kong, and Macau and for Spyder include all of Greater China.

In 2019, Nautica had the first full year operation in China after the Group re-entered the licence in mid-2018. Since the Group re-licenses the brand, we have worked closely with the brand owner, retail operators, and landlords to energise and rebuild the brand and drive retail sell-through. We commence the brand's evolution towards becoming an easy-to-wear, functional, sports-lifestyle brand. With our strength in product development, we introduced our own designed collections from Spring 2019. The highlight of our brand development strategy is the design and launch of the "Black Sail" collection which features premium, technical fabrics and innovative designs. It is the "best of the best" from the Nautica brand and is only offered at our top stores. During the year, Nautica invested in celebrity/KOL campaigns to influence target consumers to drive affinity and sales. With an eye towards re-establishing the brand and fostering direct contact with our consumers, we have built out our direct retail network of stores in Tier 1 markets. While our positioning and strategies are right, it takes time and effort to redevelop the brand in the competitive China market. As of 31 December 2019, Nautica had 64 direct retail stores run by the Group and another 61 POS operated by partners.

On the back of resounding success in the Korea, Spyder has been well-received since its first launch to the China market in the second quarter of 2019. During the year, we have contracted important retail partners in several key markets across various regions of China. Retail sales, especially for a new brand, have been encouraging. Our design teams, in both Shanghai and Seoul, and our supply chain capabilities are strong and have enhanced our product offerings and customised styling for the China market. Marketing campaigns have been focusing on communicating the authenticity of the brand and its long history in the technical, competitive ski industry. Specialised IT systems are in place to garner and analyse first-hand consumer data and enable quick response to production opportunities as well as intelligence to maximise sales, enforce retail price strategies, and enhance inventory control. As of 31 December 2019, Spyder had 35 stores across 18 cities in China.

Garment Manufacturing

Our garment manufacturing business had encouraging growth in revenue and profitability in 2019 with healthy order growth from both key premium business customers and better business customers. Our diversified production base allows us to serve our customers at different price range. Our China and Thailand factories are serving our "premium business" for fashion and complicated outerwear products. Meanwhile, our Philippines, Vietnam and Myanmar factories allow us to stay competitive in cost to support our "better business" for better tailoring products. We continue to maintain steady and long-term relationship with our customers and have also expanded our customer base. During the year, we implemented projects to improve material usage and control factory costs. We have also developed our Southeast Asian factories to manufacture outerwear products and relocated certain orders into our Vietnam factory to mitigate impact from US & China trade conflict. On applying our unique manufacturing system, it allows us to safeguard product quality, enhance efficiency as well as meeting customers' stringent requirements. All these measures helped to achieve the profitable performance in the current year as well as control rising factory costs and price pressure from our customers.

Financial Highlights

	Note	**2019**	2018	Change
Operating results (HK$ million)				
Revenue		**3,001**	2,578	+16%
Gross profit		**829**	620	+34%
EBITDA		**188**	26	+623%
EBITDA if the previous accounting standard on lease still apply		**116**	26	+346%
Amortisation of licence right	1	**(32)**	(21)	–52%
Interest on licence payable	1	**(21)**	(14)	–50%
Depreciation, amortisation and impairment on own assets		**(67)**	(61)	–10%
Loss attributable to equity shareholders		**(39)**	(80)	+51%
Loss attributable to equity shareholders if the previous accounting standard on lease still apply		**(36)**	(80)	+55%
Segment results (HK$ million)				
Garment manufacturing segment EBITDA		**192**	144	+33%
Garment manufacturing segment EBITDA if the previous accounting standard on lease still apply		**184**	144	+28%
Garment manufacturing segment results after tax		**136**	97	+40%
Garment manufacturing segment results after tax if the previous accounting standard on lease still apply		**137**	97	+41%
Brands business EBITDA		**(32)**	(120)	+73%
Brands business EBITDA if the previous accounting standard on lease still apply		**(84)**	(120)	+30%
Amortisation of licence right	1	**(32)**	(21)	–52%
Interest on license payable	1	**(21)**	(14)	–50%
Brands business results after tax		**(177)**	(167)	–6%
Brands business results after tax if the previous accounting standard on lease still apply		**(172)**	(167)	–3%
Financial position (HK$ million)				
Property, plant and equipment and leasehold land	2	**652**	309	+111%
Leasehold land and land use rights	2	**–**	126	–100%
Lease liabilities	2	**215**	–	N/A
Cash and bank balances		**285**	322	–11%
Bank borrowings		**65**	74	–12%
Total equity		**1,137**	1,177	–3%
Cash flow and capital expenditure (HK$ million)				
Cash generated from/(used in) operations		**128**	(113)	+213%
Fixed rental payment for leased assets		**(72)**	–	N/A
Capital expenditure				
Property, plant and equipment		**(88)**	(48)	–83%
Key ratios				
Gross profit margin		**27.6%**	24.1%	+3.5pp
Net loss margin attributable to equity shareholders		**(1.3%)**	(3.1%)	+1.8pp
Return on average equity (ROE)	3	**(3.4%)**	(6.5%)	+3.1pp

Notes:

1. License related amortisation and interest on license fee payable being non-cash items recognised in accordance with accounting policy for our long-term licenses – Nautica and Spyder.

2. The increase in property, plant and equipment and lease liabilities and reclassification of leasehold land and land use rights are due to adoption of new accounting standard on leases with effective from 1 January 2019.

3. ROE is calculated as loss attributable to equity shareholders over average total equity for the current and prior year.

Financial Review

Change in Accounting Policy

The Group adopted HKFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated the 2018 comparative figures, as permitted under the transitional provisions in the new standard. The adjustments arising from the new standard are recognised in the opening balance on 1 January 2019. Under the new lease accounting, the Group is required to capitalise all leases when it is the lessee, other than those short-term leases within 12 months.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, and subsequently measured at amortised cost with interest expense calculated using the effective interest method. The associated right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made on or before the commencement date. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses. The Group presents right-of-use assets under property, plant and equipment ("PPE") and lease liabilities are separately shown in the statement of financial position. Major effect on adopting HKFRS 16 is as follows:

Items of statement of financial position impacted by HKFRS 16:

	At 31 December 2019 ***HK$ million***	At 1 January 2019 *HK$ million*
Right-of-use assets balance (for assets reclassified from leasehold land and land use rights on 1 January 2019)	**120**	126
Right-of-use assets balance for other leased assets	**207**	146
Lease liabilities balance	**215**	148

Items of statement of profit or loss impacted by HKFRS 16:

	2019				2018
	Amounts reported under HKFRS 16 (A) *HK$ million*	Add back: HKFRS 16 depreciation and interest expense (B) *HK$ million*	Deduct: Estimated amounts as if under HKAS 17 (C) *HK$ million*	Hypothetical amounts for 2019 as if under HKAS 17 (A + B + C) *HK$ million*	Compared to amounts reported for 2018 under HKAS 17 *HK$ million*
Reportable EBITDA	**188**	**–**	**(72)***	**116**	**26**
Depreciation on right-of-use assets, including prepaid leasehold land and land use rights	(70)	70	(4)	(4)	(4)
Interest on lease liabilities	(9)	9	–	–	–
Loss for the year	**(37)**	**79**	**(76)**	**(34)**	**(80)**
Loss attributable to equity shareholders	**(39)**	**78**	**(75)**	**(36)**	**(80)**

* *This represented estimate amounts relating to operating leases if the previous accounting standard HKAS 17 had still applied in 2019.*

Revenue

Total revenue of the Group for the year 2019 was HK$3,001 million (2018: HK$2,578 million), representing an increase of 16% as compared with the last year.

Revenue from brands business was HK$690 million in 2019, as compared with HK$420 million in 2018. The increase was due to strong growth of wholesale by C.P. Company in key European countries, especially for Italy and the UK; and the increased revenue contribution from Nautica's full year operation plus Spyder's half year revenue.

Revenue from the garment manufacturing segment was HK$2,311 million as compared with HK$2,158 million in 2018. Revenue from premium business, which accounted for 68% (2018: 71%) of the segment revenue, increased by 2% as compared with last year. Such increase was due to continued order growth from key customers. Revenue from better business also increased by 17%, mainly from the growth of orders in our Southeast Asian factories. In general, sales of fashion and complicated outerwear products of our premium business shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons.

Geographically, major markets of the Group are US and Canada, UK and the PRC, which accounted for 32% (2018: 37%), 27 % (2018: 27%) and 17% (2018: 14%) of the Group's total revenue respectively.

The Group's business has been skewed towards the second half year mainly due to the seasonality effect in terms of higher quantity and unit selling price for Fall/Winter and holiday seasons shipment for both our garment manufacturing (in particular premium outerwear products) and brands business. The Group expects that the pattern of a larger proportion of sales and earnings record in the second half year will continue.

Gross Profit

During the year, the Group's overall gross profit recorded at HK$829 million (2018: HK$620 million), representing a gross profit margin of 27.6% (2018: 24.1%). The increase in gross profit was mainly attributable to increased turnover from both brands business and garment manufacturing business. Gross profit margin of brands business remained stable as compared with last year. Gross profit margin of the garment manufacturing business increased due to the continuous growth of the business, improvement in production efficiency and factory cost control. The Group's overall gross profit margin increased in 2019 due to the rise in revenue of overall higher margin brands business and the revenue growth of our manufacturing business.

Other Income and Other Gains

Other income and other gains in the 2019 mainly included net gain on disposal of a Philippines subsidiary of HK$10.91 million. The subsidiary was the owner of a parcel of land and certain factory buildings in the Philippines, and had been inactive since the Group consolidated its factory operation in the Philippines in early years.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, agency commission, shop expenses and commission to channel partners. Selling and distribution expenses increased as compared to 2018 mainly due to full year Nautica shop and selling expenses, spending for Spyder started in this year and increase in distribution expenses for C.P. Company in line with revenue growth.

General and Administrative Expenses

General and administrative expenses increased as compared with 2018 mainly due to the growth of our brands business.

Income Tax Expenses

Income tax expenses increased in this year mainly due to higher profit from our garment manufacturing business and the profit arising from C.P. Company.

Segment Results

In 2019, brands business reported a segment loss of HK$177 million as compared with a loss of HK$167 million in 2018. Our own brand C.P. Company has been performing well and reported a net profit in 2019. Segment loss of the brands business as a whole increased in the current year was mainly due to the early redevelopment and development stages for the Nautica and Spyder businesses respectively and increase recognition of licence right amortisation and imputed interest on licence fees payable for the two brands.

In 2019, garment manufacturing business recorded a profit of HK$136 million as compared with HK$97 million in the last year. The encouraging profit increase is mainly due to the increased revenue and gross profit.

Financial Resources and Liquidity

As at 31 December 2019, cash and bank balances amounted to HK$285 million (31 December 2018: HK$322 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits. The Group maintained sufficient banking facilities to support its business. Short-term bank borrowings of the Group amounted to HK$65 million as at 31 December 2019 (2018: HK$74 million). Such borrowings were mainly denominated in US dollars and Renminbi and bearing interest at fixed rates. The Group did not have long-term bank borrowings as at 31 December 2019 and 2018. As at 31 December 2019, bank deposits of HK$34 million (2018: HK$31 million) was pledged to secure bank guarantee facilities granted to the Group. Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2019 and 2018, and accordingly, no information on gearing ratio as at that dates is provided.

Shareholders' equity at 31 December 2019 decreased mainly due to loss attributable to equity shareholders for the current year.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2019, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling and Japanese Yen sales receipts of a European subsidiary.

Contingent Liabilities and Capital Commitments

Apart from the capital commitment disclosed in note 13 of this announcement, there was no other material capital commitments or contingent liabilities as at 31 December 2019 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

The Group had about 9,650 employees as at 31 December 2019 (2018: 9,860). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

Events After the Reporting Period

The outbreak and rapid spreading of 2019 Novel Coronavirus ("COVID-19") since early 2020 across continents have created unprecedented disruptions to the movement of people, goods and supply chains. It has been affecting the Group's business and is expected to have negative impact on the Group's financial performance in 2020. However, at the date of this announcement, it is not practicable to estimate its full financial effect to the Group. The Group has actively put in place measures in mitigating its impact. The Group will closely monitor the development and will keep its alleviating measures under regular review.

Outlook

The Group is dedicated to growing our brands business and at the same time continuing to strengthen our garment manufacturing business. The coronavirus outbreak since January 2020 has affected the Group's operations and is expected to have impact on the Group's 2020 financial performance.

Brands Business

In Europe, vast area has been put in lockdown amid the COVID-19 epidemic. This has caused disruption to our C.P. Company business in Europe. C.P. Company, our major own brand has a sound business foundation. The brand has year-on-year double-digit growth in revenue and the momentum for the brand is very positive since acquisition. We are closely monitoring the development and communicate with distributors and suppliers for rearranging inventory orders and put on-hold special collaboration projects. We believe the brand is well placed to return to strong upward momentum when the COVID-19 situation normalises. We will expand our collections to drive revenue while keeping a premium position.

In Mainland China, stores of our licensed brands were temporarily closed in late January and all of February 2020. While stores in Mainland China are resuming operation, footfall is expected only to recover gradually. To deal with the situation, the Group has taken measures to put on hold or delay new store openings and material investments, negotiate rental concession, rearrange purchase orders and strengthen cost control. While the first half year will be tough for every sector, the market demand in China will remain and is expected to gradually back to normal. For Nautica, we will expand the "Black Sail" collection with the introduction of more innovative items, as well as our first women's collection which will drive per store revenue. The brand has set up its official website and online shop in China to expand e-commerce sales. Spyder has been well-received since its launch to the China market. We will resume to judiciously expand retail into key locations when the epidemic situation is stabilised.

Garment Manufacturing

Our garment manufacturing business has recorded encouraging performance in 2019. COVID-19 is spreading around the world and has created challenges and uncertainties to the global trading environment. All our factories in Mainland China have resumed operation by end of February 2020 with over 90% attendance rate in March. In response to the outbreak, our Philippines factory has suspended operation since 20 March as required by the local authority. Our other factories in Southeast Asia remain at normal operation. The global outbreak has caused disruptions to both our production and the business of our customers with temporary shut down of retail stores and supply chain facilities. The epidemic impacts market sentiment and demand. Our customers are reassessing their inventory level and discounting orders due to the weak customer demand. We have ongoing communication with our customers and suppliers to closely manage the situation, and at the same time strengthening cost control in all areas of our operations. We believe that the challenges could be alleviated by our diversified production base, our effort to rationalise material usage and drive efficiency, and by applying our unique manufacturing system in our factories to enhance our competitiveness.

The duration of the epidemic and the scale of its impact remain uncertain. The Group will use our best effort to contain its impact to our operation and financial performance. We believe our garment manufacturing business and C.P. Company brand business have sound and solid foundation to weather the challenge. The Group will be very cautious and prudently develop our long-term licensed brands Nautica and Spyder in this year. With COVID-19 outbreak, the Group's 2020 financial performance will inevitably be affected. With the Group's solid experience together with financial backing from bank credit facilities, we have confidence to overcome this challenge and are confident in the long-term growth and sustainability of the Group.

Principal Risks and Uncertainties

The Group has an enterprise risk management mechanism in place to identify, evaluate and manage its exposure to risks. Management oversees the risks and implement robust business processes to mitigate the risks. Existing and emerging risks are identified, evaluated and tracked regularly by top management and reported to the Audit Committee.

Principal risks and uncertainties affecting the Group are outlined below:

External Risks	**Operational Risks**	**Financial Risks**
Macroeconomic Environment	Increased Cost	Liquidity and Interest Rate
Business Partner's Change in Business Strategy	Environment & Social Responsibility	Foreign Exchange
Regulatory Risks	IT Risks	
	Business Interruption	

The responses of the Group to the principal risks and uncertainties are set out below:

Nature of Risk	**Responses**
External Risks	
Macroeconomic Environment • The principal business activities of the Group are garment manufacturing and brands business with worldwide customers located in Europe, North America and Asia. The industries in which the Group operates are affected by the economic conditions and consumer spending behaviour in these countries. Change in economic condition and consumer spending behaviour may reduce the demand of our products.	• Geographic spread of customers and multiple sales channels will mitigate localised economic risks. • Annual budget is approved by the Board. • Quarterly financial performance and forecast are reported to the Board. • Internal review between Business Unit Heads and Corporate Finance Team on the monthly financial performance. • Monthly rolling forecast review where annual budget will be compared with actual and forecast figures. Variance analysis to account for the difference between budget and actual figures. • Monthly meeting to review business, sales and marketing performance.

Nature of Risk	Responses
External Risks (Continued)	
Business Partner's Change in Business Strategy • Garment manufacturing customer's strategy change in sourcing locations and competitive pricing may cause the Group to lose orders and revenue. • Change in market entry and licensing strategy by brand owners of our licensed brands may cause the Group to lose distribution rights in licensing branded products.	• Our factories are located in different countries and serve a wide range of products with different price levels. • The Group's ongoing strategy in developing our own brands and long term licensed brands business will help to sustain the revenue of brands business.
Regulatory Risks • The Group is increasingly subject to a broad and changing legal, tax, and regulatory requirements in the various jurisdictions the Group operates. New and changing policies or applications by governments may pose a risk to the Group's returns and/or subject the Group to legal challenge.	• The Group continually monitors changes in local government policies and legislation. • Ongoing long-term strategic reviews with assessment of market and country concentration.
Operational Risks	
Increased Cost • Increased cost will impact the profitability of our business.	• For our brands business, we have our own sourcing team with diversified supply network to handle product sourcing. • For garment manufacturing business, our Group effectively earns cut and make profit. Increased cost in fabric material has little impact to the Group. • Diversification of factories and supply chain in various countries in Asia and production process improvements will help to offset the rise in wages and staff costs.
Environment and Social Responsibility • Failure to comply with applicable laws, regulations or standards related to environment and social responsibility may adversely impact our employees, lose production time and attract negative media attention and regulators' interest.	• Manage internal controls over our significant environmental aspects with aim to enhance the efficiency of resource use and reduce environmental emissions in our business operation. • Apply equal opportunities principles in all employment policies.

Nature of Risk	Responses
Operational Risks (Continued)	
IT Risks • When there is IT system outage or cyberattack, all the IT systems may come to a halt causing not only business interruption but also loss of confidential information such as personal data of employees or consumers of the e-shop.	• Appropriate controls and technology have been deployed to mitigate the risk of system outages and cyberattack. They include preventive system maintenance, regular security checks, installation of fire-wall and anti-virus software, multi-level security, uninterrupted power supply, daily off-site backup of key application systems and data, regular disaster recovery drill, assignment of job-related access rights, well-defined access controls system. • Although e-shop is run on a third-party platform which is operated by an on-line distributor, the e-Commerce service agreement specifies that the on-line distributor should maintain and update all the technological elements necessary to guarantee the proper functioning of the e-shop, the safety of the systems underlying the e-shop and the protection of the personal data according to applicable laws and market practices.
Business Interruption • The Group's operations may be interrupted by the occurrence of unexpected events like natural disasters, strikes, epidemics and occupational hazards that may or may not be under the Group's control. • The widespread community transmission of COVID-19 may cause disruption in supply chain, and interruption of business operations.	• Proactive sourcing of suppliers in different countries and regional production facilities help to reduce the reliance on any single site. • Constant communication with customers for keeping them abreast of any potential disruption of services and endeavour to seek their support and understanding. • Work from home with the use of conference call, video conferencing and remote access to the Group's IT systems.
Financial Risks	
Liquidity and Interest Rate • Cash and treasury management may not be operating effectively leading to liquidity risk. • Cash flows and profitability will be negatively impacted by the movement of interest rates on bank balances and bank borrowings.	• Closely monitor to ensure that the combination of cash on hand, available credit lines and expected future operating cash flows is sufficient to satisfy current and planned cash needs. • Closely monitor the movement of market interest rate and consider interest rate hedging when necessary.

Nature of Risk	Responses
Financial Risks (Continued)	
Foreign Exchange • The Group has operations in the PRC, Europe, North America and various Asian countries. It earns revenues, incurs costs and makes investments in various foreign currencies and is thus exposed to foreign exchange risk arising from various currency exposures. • The conversion of Renminbi receipts into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange in the PRC.	• The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts. Our hedging strategy may not be effective in reducing all exchange risks. • The Group endeavours to maintain adequate and reasonable amount of Renminbi deposits in the PRC and remit surplus Renminbi out of the PRC.

Relationship with Business Partners and Stakeholders

Relationship with Customers

The Group maintains long-term relationships with customers of our garment manufacturing and branded products distribution business. The Group has developed multi-products strategy and also strengthened our scope of services to our global brands customers. The Group has no concentration or a high level of dependency on individual customer.

Relationship with Suppliers

The Group maintains long-term relationships with suppliers and subcontractors. The Group has no concentration or a high level of dependency on a small group of suppliers. The suppliers of our garment manufacturing business are generally nominated by customers. For suppliers of our branded business, we communicate with them all the way through for them to understand our policies and requirements.

Relationship with Employees

The Group recognises and supports the culture of attracting, motivating and retaining talents. The Group provides competitive compensation and benefits for its employees. Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on individual performance and financial performance of the Group. Those employees with outstanding performance are also awarded discretionary bonuses and share options. The Group promotes open communications, encourages continuous learning and support different kind of training on leadership development programme.

Compliance with Relevant Laws and Regulations

We uphold high standards and meet relevant requirements under applicable laws or ordinances when conducting our business. We did not identify non-compliance or breach of relevant standards, rules and regulations during the year.

Environmental and Social Policies

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emission, conserve energy and reduce wastage. We have implemented various environmental and sustainability initiatives in our factories. Being a responsible social citizen, the Group has been committed to supporting various charitable events, including making donations in relation to education, disaster reliefs and for the less-privileged, in particular supporting local society needs where our group companies locate for the long term. Since 2015, the Company has been participating in the Caring Company Scheme and we collaborated with The Salvation Army on various charitable activities, such as fund raising and volunteer works. Please refer to the "Environmental, Social and Governance Report" set out in our 2019 Annual Report, which discusses in detail our initiatives on environmental and social aspects and their performance.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2019, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from code provisions A.2.1 and A.5.

Considered reasons for the deviation from code provisions A.2.1 and A.5 were set out in the Company's last published interim report for the six months ended 30 June 2019. Further information of the Company's corporate governance practices will be set out in the Corporate Governance Report of the Company's Annual Report for the year ended 31 December 2019, which will be available for publication as soon as practicable.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

PROPOSED FINAL DIVIDEND

No interim dividend was paid for the six months ended 30 June 2019 (2018: Nil).

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 2 June 2020 to Monday, 8 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Monday, 8 June 2020 (the "2020 AGM"), all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 1 June 2020.

ANNUAL GENERAL MEETING

The 2020 AGM will be held at Room 5A, 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong at 10:00 a.m. on Monday, 8 June 2020. The notice of 2020 AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE'S REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the consolidated financial statements and the annual report of the Group for the year ended 31 December 2019 with the management of the Group and recommended them to the Board for approval.

On behalf of the Board
WANG Kin Chung, Peter
Chairman and Chief Executive Officer

Hong Kong, 31 March 2020

As at the date of this announcement, the Board comprises one Executive Director, Mr. WANG Kin Chung, Peter; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and three Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK and Mr. Peter TAN.