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CHINA FORDOO HOLDINGS LIMITED

中國虎都控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2399)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of China Fordoo Holdings Limited (the “**Company**”) is pleased to announce the audited annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2019 (the “**Year**”).

Reference is also made to the announcement of the Company dated 27 March 2020 (the “**Preliminary Results Announcement**”) in relation to the unaudited annual results of the Group for the Year. As certain changes have been made to the unaudited financial information of the Group for the Year as contained in the Preliminary Results Announcement, the differences between the unaudited financial information and the audited financial information contained in this announcement are set out in the section headed “Differences between the Unaudited and Audited Annual Results for the Year” in this announcement.

FINANCIAL HIGHLIGHTS

From continuing operations

- Revenue of the Group decreased by 38.2% to RMB359.0 million (2018 (Re-presented): RMB580.6 million).
- Gross profit of the Group decreased by 30.5% to RMB135.2 million (2018 (Re-presented): RMB194.5 million).
- Net loss of the Group was RMB303.7 million (2018 (Re-presented): net loss of RMB45.2 million).
- Basic and diluted loss per share was RMB15.79 cents (2018 (Re-presented): basic and diluted loss per share of RMB2.35 cents).
- The Board has resolved not to recommend the payment of a final dividend for the year (2018: Nil).

	2019	2018	Change
	(Re-presented)		
Profitability ratios			
From continuing operations			
Gross profit margin	37.7%	33.5%	+4.2 ppt
Net loss margin	-84.6%	-7.8%	-77.4 ppt
From continuing and discontinued operations			
Return on equity ⁽¹⁾	-28.4%	-3.1%	-25.3 ppt
Liquidity ratios			
From continuing operations			
Inventory turnover (Days) ⁽²⁾	55	43	
Trade and bills receivables turnover (Days) ⁽³⁾	165	140	
Trade payables turnover (Days) ⁽⁴⁾	19	20	
Capital ratios			
Interest coverage ratios ⁽⁵⁾	N/A	N/A	
Net Debt to equity ratio (%) ⁽⁶⁾	1.4%	Net Cash	
Gearing ratio ⁽⁷⁾	46.0%	37.5%	+8.4 ppt
<i>Notes:</i>			
(1) Net loss for the Year divided by total equity.			
(2) Average of the inventory at the beginning and at the end of the Year divided by cost of sales times number of days during the Year.			
(3) Average of the trade and bills receivables at the beginning and at the end of the Year divided by revenue times number of days during the Year.			
(4) Average of the trade payables at the beginning and at the end of the Year divided by costs of sales times number of days during the Year.			
(5) Profit before interest and tax for the Year divided by interest expenses of the Year.			
(6) Net debt divided by total equity as of the end of the Year. Net debt includes bank and other borrowings and corporate bonds net of cash and cash equivalents, pledged bank deposits and fixed deposits held at bank.			
(7) Total debts divided by the total equity as of the end of the Year.			

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Expressed in Renminbi)

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i> (Re-presented)
Continuing operations			
Revenue	4	358,987	580,560
Cost of sales		<u>(223,770)</u>	<u>(386,025)</u>
Gross profit		135,217	194,535
Other income and other gains or losses	5	2,683	10,139
Impairment loss of goodwill		(46,880)	(25,576)
Impairment loss of intangible assets		(6,457)	–
Impairment loss of construction in progress		(147,275)	–
Selling and distribution expenses		(78,780)	(56,452)
Administrative and other operating expenses		<u>(166,500)</u>	<u>(149,357)</u>
Loss from operations		(307,992)	(26,711)
Finance costs	6(a)	<u>(28,810)</u>	<u>(25,813)</u>
Loss before taxation	6	(336,802)	(52,524)
Income tax	7	<u>33,059</u>	<u>7,320</u>
Loss for the year from continuing operations		<u>(303,743)</u>	<u>(45,204)</u>
Discontinued operations			
(Loss)/Profit for the year from discontinued operations		<u>(7,534)</u>	<u>1,065</u>
Loss for the year		<u>(311,277)</u>	<u>(44,139)</u>
Other comprehensive (expenses)/income for the year			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the mainland of the People's Republic of China (the "PRC") to presentation currency		(1,309)	4,813
Exchange reserve realised on disposal of subsidiaries		<u>245</u>	<u>–</u>
Other comprehensive (expenses)/income for the year		<u>(1,064)</u>	<u>4,813</u>
Total comprehensive expenses for the year		<u>(312,341)</u>	<u>(39,326)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CONTINUED)**

For the year ended 31 December 2019

(Expressed in Renminbi)

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i> (Re-presented)
(Loss)/Profit for the year attributable to equity holders of the Company			
— from continuing operations		(303,743)	(45,204)
— from discontinued operations		(7,178)	767
		(310,921)	(44,437)
(Loss)/Profit for the year attributable to non-controlling interest			
— from continuing operations		—	—
— from discontinued operations		(356)	298
		(356)	298
		(311,277)	(44,139)
Total comprehensive (expense)/income attributable to:			
Equity holders of the Company		(311,985)	(39,624)
Non-controlling interest		(356)	298
		(312,341)	(39,326)
Loss per share (RMB cents)			
Basic and diluted			
— from continuing and discontinued operations	8	(16.16)	(2.31)
— from continuing operations	8	(15.79)	(2.35)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Expressed in Renminbi)

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		245,277	254,476
Biological assets		–	2,774
Construction in progress	9	376,700	359,906
Prepayment for construction in progress		–	150,000
Goodwill	10	–	46,976
Deposits placed for life insurance		7,050	6,858
Investment properties		21,368	22,556
Lease prepayments		–	253,938
Right-of-use assets		249,000	–
Intangible assets	11	120,122	158,012
Deposit for acquisition of intangible assets		–	12,917
Investment in an associate		–	–
Deferred tax assets		72,948	58,469
Financial assets at amortised cost		–	41,612
		<u>1,092,465</u>	<u>1,368,494</u>
Current assets			
Inventories		28,785	44,669
Biological assets		–	1,871
Trade and other receivables	12	185,040	222,880
Pledged bank deposits		12,708	70,565
Fixed deposits held at bank with original maturity over three months		4,000	12,530
Cash and cash equivalents		471,354	541,359
		<u>701,887</u>	<u>893,874</u>
Current liabilities			
Trade, bills and other payables	13	141,307	244,461
Bank and other borrowings		409,800	434,800
Lease liabilities		2,043	–
Corporate bonds		28,604	–
Current taxation		6,711	8,662
		<u>588,465</u>	<u>687,923</u>
Net current assets		<u>113,422</u>	<u>205,951</u>
Total assets less current liabilities		<u>1,205,887</u>	<u>1,574,445</u>

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		46,041	70,225
Bank and other borrowings		–	50,000
Lease liabilities		943	–
Corporate bonds		64,729	44,494
		111,713	164,719
Net assets		1,094,174	1,409,726
Capital and reserves			
Share capital	<i>14</i>	3,819	3,819
Reserves		1,090,355	1,402,340
Equity attributable to equity holders of the Company		1,094,174	1,406,159
Non-controlling interest		–	3,567
Total equity		1,094,174	1,409,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

These consolidated financial statements are presented in Renminbi (“RMB”) rounded to the nearest thousand, except when otherwise indicated. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

The preparation of the consolidated financial statements in conformity with IFRSs 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 APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

2.1 Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time in the current year:

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

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

Impacts and changes in accounting policies of application on IFRS 16 Leases

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

Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

- i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB942,000 and right-of-use assets of RMB254,898,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.59%.

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	<i>RMB'000</i>
Operating lease commitment as of 31 December 2018	1,615
Less: recognition exemption — short-term leases	(581)
Less: future interest expenses	(92)
	<u>942</u>
Total lease liabilities as of 1 January 2019	<u>942</u>
Lease liabilities	
Current	548
Non-current	394
	<u>942</u>

The Carrying amount of right-of-use assets as at 1 January 2019 comprises as following:

	<i>RMB'000</i>
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	942
Reclassified from prepaid rent included in other receivables, deposits and prepayments	18
Reclassified from lease prepayments	253,938
	<u>254,898</u>

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

	Carrying amount previously reported at 31 December 2018 <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Carrying amount under IFRS 16 at 1 January 2019 <i>RMB'000</i>
Non-current assets			
Lease prepayments	253,938	(253,938)	—
Right-of-use assets	—	254,898	254,898
Current assets			
Other receivables, deposits and prepayments	18	(18)	—
Current liabilities			
Lease liabilities	—	548	548
Non-current liabilities			
Lease liabilities	<u>—</u>	<u>394</u>	<u>394</u>

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

2.2 New and revised IFRSs that are not mandatorily effective for the current year

The Group has not applied any of the following new and revised IFRSs that have been issued but are not yet mandatorily effective:

IFRS 17	Insurance Contracts ¹
Amendments to IFRS 3	Definition of Business ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 1	Classification of Liabilities as Current and Non-current ⁵
Amendments to IAS 1 and IAS 8	Definition of Material ⁴
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁴

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

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

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

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

⁵ Effective for annual periods beginning on or after 1 January 2022

The directors of the Company consider that the application of all new and amendments to IFRSs and IASs is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in foreseeable future.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments the Amendments to Reference to the Conceptual Framework in IFRS Standards, will be effects for annual period beginning on or after 2020.

3 SEGMENT INFORMATION

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the consolidated financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The main operation of the Group is manufacturing and wholesaling of menswear in the PRC.

The following is an analysis of the Group's revenue and results by segment:

Segment revenue and results

For the year ended 31 December 2019

	Continuing operations			Other RMB'000	Discontinued operations		Consolidated RMB'000
	Menswear RMB'000	Unallocated RMB'000	Sub-total RMB'000		Unallocated RMB'000	Sub-total RMB'000	
Revenue	358,987	–	358,987	19,960	–	19,960	378,947
Segment result before the following items	(42,405)	–	(42,405)	(12,900)	–	(12,900)	(55,305)
Impairment of intangible assets	(6,457)	–	(6,457)	–	–	–	(6,457)
Impairment of goodwill	(46,880)	–	(46,880)	–	–	–	(46,880)
Allowance for ECL, net	(62,745)	–	(62,745)	–	–	–	(62,745)
Segment result	<u>(158,487)</u>	<u>–</u>	<u>(158,487)</u>	<u>(12,900)</u>	<u>–</u>	<u>(12,900)</u>	<u>(171,387)</u>
Other revenue and unallocated gains		1,374	1,374		5,405	5,405	6,779
Corporate and other unallocated expenses		(179,689)	<u>(179,689)</u>		–	–	<u>(179,689)</u>
Loss before tax			(336,802)			(7,495)	(344,297)
Tax expense	33,059	–	33,059	(39)	–	(39)	33,020
			<u>(303,743)</u>			<u>(7,534)</u>	<u>(311,277)</u>

Segment assets and liabilities

	Continuing operations			Other RMB'000	Discontinued operations		Consolidated RMB'000
	Menswear RMB'000	Unallocated RMB'000	Sub-total RMB'000		Unallocated RMB'000	Sub-total RMB'000	
Segment assets							
Unallocated assets	<u>1,148,580</u>	<u>645,772</u>	<u>1,794,352</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,794,352</u>
Segment liabilities	<u>562,384</u>	<u>137,794</u>	<u>700,178</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>700,178</u>

For the year ended 31 December 2018

	Continuing operations			Other RMB'000 (Re-presented)	Discontinued operations		Consolidated RMB'000 (Re-presented)
	Menswear RMB'000 (Re-presented)	Unallocated RMB'000 (Re-presented)	Sub-total RMB'000 (Re-presented)		Unallocated RMB'000 (Re-presented)	Sub-total RMB'000 (Re-presented)	
Revenue	580,560	–	580,560	30,489	–	30,489	611,049
Segment result before the following item	20,531	–	20,531	2,505	–	2,505	23,036
Impairment of intangible assets	–	–	–	–	–	–	–
Impairment of inventory	(3,954)	–	(3,954)	–	–	–	(3,954)
Impairment of goodwill	(25,576)	–	(25,576)	–	–	–	(25,576)
Allowance for ECL, net	(19,280)	–	(19,280)	–	–	–	(19,280)
Segment result	<u>(28,279)</u>	<u>–</u>	<u>(28,279)</u>	<u>2,505</u>	<u>–</u>	<u>2,505</u>	<u>(25,774)</u>
Other revenue and unallocated gains		626	626		790	790	1,416
Corporate and other unallocated expenses		(24,871)	(24,871)		(1,906)	(1,906)	(26,777)
Loss before tax			(52,524)			1,389	(51,135)
Tax expense	7,320	–	7,320	(421)	97	(324)	6,996
			<u>(45,204)</u>			<u>1,065</u>	<u>(44,139)</u>

Segment assets and liabilities

	Continuing operations			Other RMB'000 Re-presented	Discontinued operations		Consolidated RMB'000 Re-presented
	Menswear RMB'000	Unallocated RMB'000	Sub-total RMB'000		Unallocated RMB'000 Re-presented	Sub-total RMB'000 Re-presented	
Segment assets							
Unallocated assets	<u>1,398,714</u>	<u>755,076</u>	<u>2,153,790</u>	<u>63,127</u>	<u>45,451</u>	<u>108,578</u>	<u>2,262,368</u>
Segment liabilities	<u>669,112</u>	<u>79,333</u>	<u>748,445</u>	<u>42,769</u>	<u>61,428</u>	<u>104,197</u>	<u>852,642</u>

(a) Geographical information

The following table presents the Group's geographical information in terms of revenue for the years ended 31 December 2019 and 2018:

	Continuing operations		Discontinued operations		Total	
	2019 RMB'000 (Re-presented)	2018 RMB'000	2019 RMB'000 (Re-presented)	2018 RMB'000	2019 RMB'000 (Re-presented)	2018 RMB'000
China	349,487	400,463	19,960	30,489	369,447	430,952
US	–	678	–	–	–	678
Hong Kong	9,500	179,419	–	–	9,500	179,419
	<u>358,987</u>	<u>580,560</u>	<u>19,960</u>	<u>30,489</u>	<u>378,947</u>	<u>611,049</u>

(b) Non-current assets

The principal place of the Group's operation is in PRC. For the purpose of segment information disclosures under IFRS 8, the Group regards PRC as its country of domicile. Over 90% of the Group's non-current assets are located in the PRC.

Information about major customers

No revenue from any single customer of the Group, (2018: one customer amounting to approximately RMB88,366,000) accounted for over 10% of the Group's total revenue.

4 REVENUE

The main business activities of the Group are manufacturing and wholesaling of menswear in the PRC. Revenue represents the sales value of goods sold less discounts and Value Added Tax ("VAT").

Revenue by product type is as follows:

	2019 RMB'000	2018 <i>RMB'000</i> (Re-presented)
Continuing operations		
Men's trousers	189,758	321,860
Men's tops	168,508	257,747
Accessories	721	953
	358,987	580,560

There was no customer with whom transaction has exceeded 10% of the Group's revenue for the year ended 31 December 2019 from menswear segment (2018: one customer with approximately RMB88,366,000).

5 OTHER INCOME AND OTHER GAINS OR LOSSES

	2019 RMB'000	2018 <i>RMB'000</i> (Re-presented)
Continuing operations		
Interest income	4,758	1,522
Rental income from investment properties less direct outgoings	1,415	1,472
Service income	1,380	–
Government grants	353	474
Net foreign exchange (loss)/gain	(947)	6,616
Net loss on disposal of property, plant and equipment	(4,447)	(279)
Others	171	334
	2,683	10,139

Government grants were received from several local government authorities, of which the entitlements were under the discretion of the relevant authorities.

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Re-presented)
Continuing operations		
(a) Finance costs:		
Interest on corporate bonds	7,836	4,895
Interest on bank and other borrowings	20,896	20,918
Interest on lease liabilities	78	–
	<u>28,810</u>	<u>25,813</u>
(b) Staff costs (including directors' remuneration):		
Contributions to defined contribution retirement plans	956	1,331
Salaries, wages and other benefits	42,515	65,957
Equity-settled share-based payment expenses for employees	–	264
	<u>43,471</u>	<u>67,552</u>
(c) Other items:		
Amortisation of lease prepayments	–	7,109
Amortisation of intangible assets	44,164	43,734
Depreciation of property, plant and equipment	17,449	17,617
Depreciation of investment properties	1,188	1,187
Depreciation of right-of-use assets	8,496	–
Auditors' remuneration	1,936	1,928
Research and developments expenses (<i>note (i)</i>)	8,534	16,129
Cost of inventories (<i>note (ii)</i>)	223,770	386,025
Allowance for ECL, net	62,745	19,280
Impairment of inventories	–	3,954
Written-off of trade receivable	857	–
Operating lease payment	–	1,842
Expense related to short-term leases	<u>631</u>	<u>–</u>

Notes:

- (i) Research and development costs include staff costs working in Group's design and product development department. The staff costs disclosed in note 6(b) included such an amount.
- (ii) Included in cost of sales are RMB20,601,000 of staff costs, depreciation and amortisation charges for the year ended 31 December 2019 (2018: RMB47,683,000), which are also included in the respective amounts disclosed in note 6(b).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Re-presented)
Continuing operations		
Current tax		
Provision for PRC enterprises income tax for the year	6,226	15,705
Deferred tax credit	<u>(39,285)</u>	<u>(23,025)</u>
	<u><u>(33,059)</u></u>	<u><u>(7,320)</u></u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), none of the members of the Group are subject to any income tax in the Cayman Islands or BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as none of the members of the Group earned any income that was subject to Hong Kong Profits Tax for the years ended 31 December 2019 and 31 December 2018.
- (iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprises income tax is calculated based on the statutory rate of 25% of the assessable profits of subsidiaries incorporated in the PRC.
- (iv) According to the Corporate Income Tax law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

8 LOSS PER SHARE

(a) Basic loss per share

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Re-presented)
Loss		
(Loss)/Profit for the year for the purposes of computation of basic loss per share		
— from continuing operations	(303,743)	(45,204)
— from discontinued operations	<u>(7,178)</u>	<u>767</u>
	<u><u>(310,921)</u></u>	<u><u>(44,437)</u></u>

	Number of shares	
	'000	'000
		(Re-stated)
Number of shares		
Weighted average number of ordinary shares in issue (<i>Note</i>)	<u>1,923,600</u>	<u>1,923,600</u>

Note: The weighted average number of ordinary shares in issue during the year ended 31 December 2018 had been adjusted for share subdivision on 17 October 2019. Details of the share subdivision are set out in Note 14.

(b) Diluted loss per share

The computation of diluted loss per share for the year ended 31 December 2018 and 2019 did not assumed the exercise of outstanding share options of the Company since their assumed conversion would result in a decrease in loss per share.

9 CONSTRUCTION IN PROGRESS

	2019	2018
	RMB'000	RMB'000
Cost:		
At 1 January	359,906	343,314
Additions	164,069	16,592
Impairment	<u>(147,275)</u>	<u>–</u>
At 31 December	<u>376,700</u>	<u>359,906</u>
Net book value:		
At 31 December	<u>376,700</u>	<u>359,906</u>

- (a) Construction in progress represents cost incurred for the construction of commercial centre located in Hui'an, Fujian Province. The Group proposed to build three commercial buildings and underground car park which targeted to be completed by 2022. The directors of the Company have not finalised how the commercial centre will be used.
- (b) As at 31 December 2019, the Group assessed the recoverable amount of construction in progress and the carrying amount of which were written down to their recoverable amount of approximately RMB376,700,000 (2018: RMB359,906,000). Accordingly, an impairment loss of approximately RMB147,275,000 (2018: Nil) was recognised during the year ended 31 December 2019. The estimates of recoverable amount was based on the replacement cost approach carried out by an independent qualified valuer, International Valuation Limited.

10 GOODWILL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At 1 January	46,976	72,456
Addition from business combination	–	96
Impairment	(46,880)	(25,576)
Disposal of subsidiaries	(96)	–
	<u>–</u>	<u>–</u>
At 31 December	<u><u>–</u></u>	<u><u>46,976</u></u>

The Group performed its annual impairment test for goodwill allocated to Chameleon Ventures Limited and its subsidiaries (the “**Chameleon Group**”) by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the cash generating unit is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five-year period approved by management have been extrapolated with an estimated general annual growth of 3% (2018: 3%). The discount rate used of 10.5% (2018: 12.7%) reflects specific risks related to the relevant segment. Other key assumptions for 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.

Accordingly, impairment on goodwill allocated to the Chameleon Group of RMB46,880,000 (2018: RMB25,576,000) was recognised during the year.

11 INTANGIBLE ASSETS

	ERP system <i>RMB'000</i>	Distribution network <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2018	4,429	217,000	221,429
Acquisition through business combination	189	–	189
	<u>4,618</u>	<u>217,000</u>	<u>221,618</u>
At 31 December 2018 and 1 January 2019	4,618	217,000	221,618
Addition	12,967	–	12,967
Disposal of subsidiaries	(241)	–	(241)
	<u>17,344</u>	<u>217,000</u>	<u>234,344</u>
At 31 December 2019	17,344	217,000	234,344
Accumulated amortisation:			
At 1 January 2018	1,785	18,083	19,868
Charge for the year	338	43,400	43,738
	<u>2,123</u>	<u>61,483</u>	<u>63,606</u>
At 31 December 2018 and 1 January 2019	2,123	61,483	63,606
Charge for the year	809	43,400	44,209
Disposal of subsidiaries	(50)	–	(50)
Impairment	–	6,457	6,457
	<u>2,882</u>	<u>111,340</u>	<u>114,222</u>
At 31 December 2019	2,882	111,340	114,222
Net book value			
At 31 December 2019	<u><u>14,462</u></u>	<u><u>105,660</u></u>	<u><u>120,122</u></u>
At 31 December 2018	<u><u>2,495</u></u>	<u><u>155,517</u></u>	<u><u>158,012</u></u>

For the year ended 31 December 2019, an impairment loss of approximately RMB6,457,000 on intangible assets that relates to the Chameleon Group, which constitutes a cash generating unit, has been recognised as a result of an impairment assessment made by the management as detailed in Note 10.

12 TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	343,712	425,974
Less: Loss allowance for expected credit loss	(207,532)	(234,115)
	<u>136,180</u>	<u>191,859</u>
Trade receivables	136,180	191,859
Prepayments to suppliers	1,731	15,640
Other deposits, prepayments and receivables	47,129	15,381
	<u>185,040</u>	<u>222,880</u>

Aging analysis

At the end of the reporting period, the aging analysis of trade receivables with net of allowance for doubtful debts, based on invoice date, is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	122,952	136,736
More than 3 months but within 6 months	11,419	50,881
More than 6 months but within 1 year	1,589	4,242
Over 1 year	220	—
	<u>136,180</u>	<u>191,859</u>

Trade receivables are normally due for settlement within 90–180 days from the invoice date.

13 TRADE, BILLS AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	11,282	27,932
Bills payable	36,500	90,350
Other payables	36,864	61,996
Final payment for acquisition of subsidiaries	—	3,500
Accruals	56,661	60,683
	<u>141,307</u>	<u>244,461</u>

The below is an aging analysis of the trade and bills payables at the end of the reporting period based on relevant invoice dates:

	2019 RMB'000	2018 RMB'000
Within 1 month or on demand	4,216	54,796
After than 1 month but within 3 months	7,066	33,486
Over 3 months but within 6 months	36,500	30,000
Over 6 months but within 1 year	–	–
	47,782	118,282

14 SHARE CAPITAL

	Number of ordinary shares of HK\$0.01	Number of ordinary shares of HK\$0.0025	Amount HK\$'000
Authorised:			
At 1 January 2018, at 31 December 2018 and at 1 January 2019	1,000,000,000	–	10,000
Share subdivision (<i>note</i>)	(1,000,000,000)	4,000,000,000	–
At 31 December 2019	–	4,000,000,000	10,000

	Number of ordinary shares of HK\$0.01	Number of ordinary shares of HK\$0.0025	Amount HK\$'000	Amount RMB'000
Issued and fully paid:				
At 1 January 2018, at 31 December 2018 and at 1 January 2019	480,900,000		4,809	3,819
Share subdivision (<i>note</i>)	(480,900,000)	1,923,600,000	–	–
At 31 December 2019	–	1,923,600,000	4,809	3,819

Note: On 15 October 2019, the Company approved the share subdivision at the extraordinary general meeting, the share subdivision become effective on 17 October 2019, whereby each issued and unissued ordinary share of HK\$0.01 each subdivided into four subdivided ordinary shares of HK\$0.0025 each.

15 DISPOSAL OF SUBSIDIARIES

On 29 October 2019, The Company entered into a sales and purchases agreement with an independent third party in relation to disposal of 100% issued share capital of Rich Smooth Investment International Limited and its subsidiaries (“**Rich Smooth Group**”) at a cash consideration of RMB17,000,000. Rich Smooth Investment International Limited is an investment holding company and its subsidiaries were principally engaged in the goose retail and by products and online platform and retails shops in the PRC. The disposal of Rich Smooth Group was completed on 31 October 2019.

The net assets of Rich Smooth Group as at the date of disposal were as follow:

	31 October 2019 RMB’000
Property, plant and equipment	21,017
Biological assets	4,650
Intangible assets	191
Right-of-use assets	1,476
Goodwill	96
Deferred tax assets	622
Financial assets at amortised cost	39,612
Inventories	11,788
Trade and other receivables	14,512
Cash and bank equivalents	4,243
Bank and other borrowings	(37,173)
Trade and other payables	(45,642)
Lease liabilities	(586)
Amount due to holding company	(23,733)
Net assets disposal of Rich Smooth Group	(8,927)
Non-controlling interests	(3,211)
Shareholder’s loan	23,733
	11,595
Cash consideration	(17,000)
Gain on disposal	(5,405)
Cash consideration receivable	17,000
Cash and cash equivalents disposed	(4,243)
Net cash inflow from the disposal	<u>12,757</u>

DIFFERENCES BETWEEN THE UNAUDITED AND AUDITED ANNUAL RESULTS FOR THE YEAR

Set forth below are the differences between the unaudited financial information of the Group for the Year contained in the Preliminary Results Announcement and the audited financial information contained in this announcement. The reasons giving rise to such differences are also set out in the respective notes below.

	<i>Notes</i>	Disclosure in this announcement <i>RMB'000</i> (Audited)	Disclosure in the Preliminary Announcement <i>RMB'000</i> (Unaudited)	Difference <i>RMB'000</i>
Consolidated Statement of Profit or Loss for the Year				
Impairment loss of construction in progress	(a)	(147,275)	–	(147,275)
Loss before taxation	(a)	(336,802)	(189,527)	(147,275)
Loss for the year from continuing operations	(a)	(303,743)	(156,468)	(147,275)
Loss for the year	(a)	(311,277)	(164,002)	(147,275)
Loss per share (RMB cents)				
Basic and diluted				
— from continuing and discontinued operations	(a)	(16.17)	(8.51)	(7.66)
— from continuing operations	(a)	(15.79)	(8.13)	(7.66)
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year				
		A	B	A–B
Total comprehensive expenses for the year	(a)	(312,341)	(165,066)	(147,275)
Total comprehensive expenses for the year attributable to				
— Equity holders of the Company	(a)	(311,985)	(165,066)	(146,919)
— Non-controlling interest	(b)	(356)	–	(356)
Consolidated Statement of Financial Position as at 31 December 2019				
Under non-current assets				
— Construction in progress	(c)	376,700	373,975	2,725
— Prepayment for construction in progress	(d)	–	150,000	(150,000)
Aggregate of non-current assets	(c)	(1,092,465)	1,239,740	(147,275)
Total assets less current liabilities	(c)	(1,205,887)	1,353,162	(147,275)
Net assets	(c)	(1,094,174)	1,241,449	(147,275)

Notes:

- (a) The difference is due to a recognition of an impairment loss of construction in progress (the “**Impairment Loss**”) in relation to the Fordoo commercial centre in Hui’an, Fujian Province of the amount of approximately RMB147.3 million. For the purpose of annual impairment review, the Company had engaged an independent valuer (the “**Independent Valuer**”) to assess the value of the construction in progress and an independent quantity surveyor (the “**Quantity Surveyor**”) to assess progress of construction as at 31 December 2019. However, only the carrying amounts of construction in progress of approximately RMB374.0 million and prepayment for construction in progress of approximately RMB150.0 million were adopted in the preparation of unaudited annual results of the Group for the Year as set out in the Preliminary Results Announcement because the valuation report and progress report would not be finalized, as the Independent Valuer and the Quantity Surveyor were not able to arrange a physical on-site inspection of the construction in progress because of travel limitation due to the outbreak of coronavirus disease, and hence were not able to issue the valuation report and progress report before the date of the Preliminary Results Announcement, i.e. 27 March 2020. The possibility of a recognition of impairment loss of construction in progress relating to the Fordoo commercial centre was also disclosed in the Preliminary Results Announcement.

A physical on-site inspection by the Independent Valuer and the Quantity Surveyor was conducted in late April 2020 and the valuation report and the progress report were issued afterward. The total value of the construction in progress assessed in the valuation report is approximately RMB376.7 million which is lower than the combined carrying amount of construction in progress and prepayment for construction in progress of approximately RMB524.0 million. The Impairment Loss is therefore recognized.

- (b) The amount of approximately RMB356,000 had been reclassified from the total comprehensive expenses for the year attributable to equity holder to the total comprehensive expenses for the year attributable to non-controlling interest.
- (c) Due to the Impairment Loss recognized in the consolidated statement of profit or loss for the Year, the same amount of construction in progress has been reduced.
- (d) The prepayment for construction in progress was an amount paid in advance to a constructor to purchase materials for the construction of the Fordoo commercial centre. The materials should have been utilized in the construction process and therefore it is fully capitalized in the construction in progress and reduced to zero as at 31 December 2019.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of China Fordoo Holdings Limited (the “**Company**”), I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019 (the “**Year**”).

BUSINESS OVERVIEW

Year 2019 could be a tough year for the apparel industry of the PRC which experienced huge pressure. The international operating environment became increasingly complicated with insufficient growth momentum in the market. In particular, the spillover effect stemming from the negative impact of global trade tensions cast its long shadow over the development of international trade. Given such global sentiment, the macroeconomy of the PRC was also characterized by the increasing likelihood of a downturn, poor consumer confidence and a depressed market. Besides, the quicker pace of innovation for consumption demand also presented unprecedented challenges and difficulties for the development of the industry. Inevitably, results of the Group were adversely affected. In 2019, revenue of the Group from continuing operations decreased by 38.2% to RMB359.0 million as compared to last year while net loss of the Group for the Year increased by 605.2% to RMB311.3 million as compared to last year.

Facing the challenges ahead, the Group took a multi-pronged approach. We continued to improve operating efficiency by closing and integrating some of the underperforming retail outlets as well as strengthening the management towards our distributors. We managed to enhance the front-line and back-office operations as well as optimize the related work flow, thereby increasing efficiency and materializing reasonable cost control. In addition, we conducted in-depth analysis of the market and consumer behavior to ensure our product design, production and marketing strategies to be more prospective-oriented so as to enhance customer loyalty and consolidate our self-operated retail network. The Group has started exploring new opportunities in 2018 to expand and diversify its businesses and activities, with a view to broadening its source of income. In the second half of 2018, the Group also expanded its operation scope to the business of hatching, raising and butchering landes goose in Shandong, and established an online platform and physical stores in China to retail and distribute consumer goods such as high-end food stuff. However, financial performance of this new business line failed to live up to the expectation of the management regardless of the efforts we have made for over a year. In October 2019, the Group disposed of this business in order to avoid further resources commitment and to cut losses.

FUTURE PROSPECTS

The nationwide outbreak of novel coronavirus (COVID-19) has led to the suspension of social and economic activities in most cities across China and, in turn, imposed downward pressure on the prospect of economic growth in the short term. Industries including tourism, entertainment and retailing may be affected to a larger extent while halting the expansion of production facilities may have impact on industrial production and trading. However, we believe the impact is of a temporary nature and recovery will take place after the first quarter. Amid these uncertainties, the Group will brave all the difficulties to address the negative impact on the Group arising from adverse market environment by continuously monitoring business operations, controlling and reducing unnecessary expenses and saving costs, exploring markets or brands in other regions, developing a variety of products with different styles and specifications, expanding product portfolios and increasing choices of customer order to cater to market preferences and expand other sales channels, such as online distributors and third-party distributors. Above all, the Group will continue to explore other potential investment opportunities to achieve greater value for the shareholders of the Company (the “**Shareholders**”).

APPRECIATION

Last but not least, I would like to take this opportunity to extend my sincere gratitude to all Shareholders, fellow directors, senior management and staff for their dedication and contribution to the Group’s development during the Year. I, on behalf of the Board, would like to thank all of our clients, suppliers and business partners for their continuous support and trust. Going forward, we shall remain unwavering in exploring further opportunities and overcoming challenges for attaining better results for the Group.

Kwok Kin Sun
Chairman

Hong Kong, 8 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is one of the leading menswear enterprises in the PRC focusing on the design, sourcing, manufacturing and sales of its branded menswear products.

In 2019, with the consumption patterns and consumer preferences being changed by the continuous rise of e-commerce and the emergence of fast fashion apparel, the business environment of the menswear industry remained tough and highly competitive. Apart from this, due to the ongoing Sino-US trade war and the slowdown in China's economic growth, consumers' interest in well-known branded products has been reduced, they are more prone to buying more affordable products, such as fast fashion, which has made the business environment more complicated. In addition, the increase in operating costs has also made the situation even worse, especially in some first-tier cities in China.

To cope with the intense competition in the retail market and weak consumer sentiment, the Group continued to rationalize its distribution network by closing some of the underperforming retail outlets and develop new distribution channels, such as online distributors in order to improve operating efficiency. Furthermore, the Group persistently enhances its design and product development capabilities and is committed to diversify the product portfolios in order to meet the needs of customers and raise their brand loyalty. The Group had diversified its businesses and activities into landes goose business and online platform and retail stores business for sale and distribute consumer goods in China in the second half of 2018. However, these new businesses had not been meeting expectation of the management and therefore the management sold these businesses to realise the investment rather than devoting further resources. The Group shall continue to explore new opportunities of maximizing the return to the Group and the Shareholders.

Financial Review

For the Year, the Group resulted a loss of approximately RMB311.3 million (2018: loss of RMB44.1 million). The incur of loss was mainly attributable to (i) the decline in Group's revenue and gross profit due to the cessation of the Group's export trading business which was loss making, the Group's consolidation strategy on its retail outlet network and the decrease in wholesale orders as a result of the Group's termination of distribution relationships with distributors which had unsatisfactory payment history; (ii) the recognition of an impairment loss of goodwill of approximately RMB46.9 million and intangible asset of approximately RMB6.5 million, which arose from our acquisition of the menswear retail business in the PRC in 2017; and (iii) the recognition of an impairment loss of construction in progress of approximately RMB147.3 million in relation to the construction of the Fordoo commercial centre. As at 31 December 2019, the Group had 498 retail outlets (including 2 self-operated retail stores located in Quanzhou and 28 self-operated retail outlets in Beijing), representing a net decrease of 174 retail outlets from 672 retail outlets as at 31 December 2018.

Revenue

For the Year, revenue from continuing operations decreased by approximately 38.2% to approximately RMB359.0 million from approximately RMB580.6 million for the previous year. The decrease in revenue was primarily due to the cessation of the Group's export trading business which was loss making, the Group's consolidation strategy on its retail outlet network and the decrease in wholesale orders as a result of the termination of distribution relationships with some of the Group's distributors who had slow repayment history.

Revenue by Product Type

	For the year ended 31 December				Change %
	2019		2018		
	<i>RMB million</i>	<i>% of revenue</i>	<i>RMB million</i> (Re-presented)	<i>% of revenue</i> (Re-presented)	
Continuing operations					
Apparel					
Men's trousers	189.8	52.9%	321.9	55.4%	−41.1%
Men's tops	168.5	46.9%	257.8	44.4%	−34.6%
Accessories	0.7	0.2%	0.9	0.2%	−22.2%
Total	359.0	100.0%	580.6	100.0%	−38.2%

Men's trousers remained the major revenue contributor and accounted for approximately 52.9% of the total revenue during the Year (2018 (Re-presented): 55.4%).

Revenue by Product Style

	For the year ended 31 December				Change %
	2019		2018		
	<i>RMB million</i>	<i>% of revenue</i>	<i>RMB million</i> (Re-presented)	<i>% of revenue</i> (Re-presented)	
Continuing operations					
Apparel					
Business Casual	228.0	63.6%	238.9	41.1%	−4.6%
Business Formal	72.6	20.2%	81.8	14.1%	−11.2%
Casual ⁽¹⁾	57.6	16.0%	259.0	44.6%	−77.8%
Accessories	0.7	0.2%	0.9	0.2%	−22.2%
Total	359.0	100.0%	580.6	100.0%	−38.2%

Business casual series became our largest revenue contributor and accounted for approximately 63.6% of the total revenue during the Year (2018 (Re-presented): casual series with 44.6% of the total revenue).

Note:

- (1) Casual series include jeans and shorts targeting customers aged between 31 and 60 and men's casual fashion series products targeting customers aged between 18 and 30. Men's casual fashion series include T-shirts, casual shirts, jackets, sweaters, casual trousers, jeans and shorts.

Revenue by Region

Region	For the year ended 31 December				Change %
	2019		2018		
	RMB million	% of Revenue	RMB million (Re-presented)	% of Revenue (Re-presented)	
Continuing operations					
Apparel and accessories					
Northern China ⁽¹⁾	117.3	32.7%	162.2	27.9%	-27.7%
Northeastern China ⁽²⁾	1.8	0.5%	2.8	0.5%	-34.2%
Eastern China ⁽³⁾	145.5	40.5%	191.9	33.1%	-24.2%
Central Southern China ⁽⁴⁾	13.9	3.9%	10.8	1.9%	28.2%
Southwestern China ⁽⁵⁾	14.2	4.0%	17.1	2.9%	-17.1%
Northwestern China ⁽⁶⁾	9.7	2.7%	14.7	2.5%	-34.2%
US	–	–	0.7	0.1%	-100.0%
Hong Kong	9.5	2.6%	179.4	30.9%	-94.7%
Subtotal	311.9	86.9%	579.6	99.8%	-46.2%
Online distributor	47.0	13.1%	0.9	0.2%	5,121.3%
Total	358.9	100%	580.5	100%	-38.2%

Notes:

- (1) Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
- (2) Northeastern China includes Heilongjiang, Jilin and Liaoning.
- (3) Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
- (4) Central Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.
- (5) Southwestern China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
- (6) Northwestern China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Eastern China and Northern China regions remained the major revenue contributors to the Group during the year and together accounted for approximately 73.2% (2018 (Re-presented): 61%) of the total revenue. Revenue from online distributor increased from 0.2% to 13.1% of the total revenue and it reflected that we have placed more efforts on the internet marketing and expanded out distribution channel. However, the revenue from Hong Kong decreased from approximately 30.9% to 2.6% of the total revenue in 2019 due to termination of export trading with low margin.

Cost of Sales

Cost of sales decreased by approximately 42.0% to approximately RMB223.8 million for the Year from approximately RMB386.0 million for the previous year. The decrease was in line with the decrease in revenue for the Year.

The Group continued to manufacture its products either by self-production or OEM purchase. We used our in-house manufacturing facilities to manufacture most of our core products and outsourced the production of accessories and certain apparel products as we continued to expand and diversify our product offering. This flexible manufacturing process allowed us to achieve the best product quality, cost efficiency and flexibility in production arrangement as well as to protect our intellectual property.

During the year ended 31 December 2019, self-production accounted for approximately 41.7% (2018: 60.4%) of the total cost of sales for apparel business, decreased by approximately 18.7 percentage points compared with the year 2018. The decrease was mainly due to the fact that we purchased more high-value products from OEMs and utilized some of our production facilities to fulfill certain lower-value overseas bulk purchase orders.

Gross Profit and Gross Profit Margin

Gross profit for the Year decreased by approximately 30.5% year-on-year to approximately RMB135.2 million (2018 (Re-presented): RMB194.5 million). Gross profit margin increased approximately 4.2 percentage points year-on-year to approximately 37.7%, which was primarily attributable to an increase in revenue from self-operated shops with higher profit margin.

Other Incomes and Other Gains or Losses

For the Year, other incomes and other gains or losses decreased by approximately RMB7.4 million to approximately RMB2.7 million from approximately RMB10.1 million for the previous year. The net decrease was mainly due to a net increase in interest income of approximately RMB3.2 million and a net increase in financial consultant service income of approximately RMB1.4 million, offset by a net increase in foreign exchange loss of approximately RMB7.6 million and a net increase in net loss on disposal of fixed assets of RMB4.2 million.

Selling and Distribution Expenses

For the Year, selling and distribution expenses increased by approximately RMB22.3 million year-on-year to approximately RMB78.8 million, accounted for approximately 21.9% of total revenue, which represented a year-on-year increase of approximately 12.2 percentage points. The increase in selling and distribution expenses was primarily due to an increase in advertising and promotional expenses for more usage of online distributor, which was partially offset by (i) a decrease in decoration expenses, which was in line with the consolidation strategy on the under-performing shops; and (ii) a decrease in packaging material expenses as a result of decreased sales volume.

Included in the amount were advertising and promotional expenses of approximately RMB48.9 million in total, which accounted for approximately 13.6% of the total revenue, increased by 8.1 percentage points compared to the previous year. The increase in advertising and promotional expenses led to an increase in sales through online distributor. The Group continued to take initiatives to promote its corporate image through multi-channel marketing campaigns.

Administrative and Other Operating Expenses

For the Year, the Group's administrative and other operating expenses increased by approximately RMB17.1 million year-on-year to RMB166.5 million, accounting for approximately 46.4% of total revenue, which represented a year-on-year increase of 20.7 percentage points. The increase was mainly due to the net increase in provisions for bad and doubtful debt by RMB43.4 million to RMB62.7 million (2018 (Re-presented): RMB19.3 million), as a result of the prudent account receivable provision policy adopted before to terminate the distribution relationships with some distributors who had slow repayment history in the previous year, net off by reduction in the salaries by RMB3.5 million and in the cost of research and development by RMB7.3 million. Excluding the effect of the provision for bad and doubtful debts, the Group's administrative and other operating expenses for the Year had decreased by approximately 20.2% compared to the previous year. This was mainly attributable to the decrease in the one-off staff demission compensation in 2018 by RMB10.1 million and the decrease in other general operating expenses.

Finance Costs

For the Year, finance cost increased by approximately 20.2% year-on-year to approximately RMB28.8 million (2018 (Re-presented): RMB25.8 million), which was mainly due to an increase in corporate bonds and higher average interest rate.

Income Tax

For the Year, income tax credit increased by approximately RMB25.7 million year-on-year to RMB33.0 million (2018 (Re-presented): RMB7.3 million). The increase in income tax credit was mainly due to the decrease of profit before taxation and the increase in deferred tax assets due to the increase in amortization of intangible assets and impairment of goodwill.

Loss Attributable to Shareholders of the Company

Loss attributable to the shareholders for the Year was approximately RMB303.7 million (2018 (Re-presented): loss of RMB45.2 million).

The Board has resolved not to recommend the payment of a final dividend for the Year (2018: Nil).

BUSINESS REVIEW

Distribution Network

As of 31 December 2019, our distribution network comprised 50 distributors (including one online distributor) and 82 sub-distributors who operated 468 retail outlets, spanning over 250 cities and 29 provinces, autonomous regions and central government-administered municipalities in the PRC. We also sell our products directly to end customers through our 2 self-operated retail outlets in Quanzhou, Fujian Province and 28 self-operated retail outlets in Beijing.

The Group adopted a cautious view, suspended our expansion plan, and continued to consolidate our sales network and close down certain under-performing retail outlets in 2019. The Group primarily sells its products on a wholesale basis to its third-party distributors, who then sell the products to end customers through retail outlets or resell the products to their sub-distributors, who in turn sell the products to end customers through retail outlets operated by those sub-distributors.

We have 2 self-operated retail outlets in Quanzhou, Fujian Province, which are flagship stores to showcase our expectation and standards of a store environment to our distributors and their sub-distributors. We also have 28 self-operated retail outlets in Beijing since we acquired 北京浩垠服飾有限公司 (Beijing Haoyin Clothing Co., Ltd*), which engages in menswear retail business in the PRC, during the year 2017.

As of 31 December 2019, the Group had 498 retail outlets (including the 2 self-operated retail stores in Quanzhou and self-operated 28 retail outlets in Beijing), representing a net decrease of 174 retail outlets from 672 retail outlets as at 31 December 2018. The Group realigned its stores network and closed down certain under-performing retail outlets.

As of 31 December 2019, 82.3% of the retail outlets were located in department stores or shopping malls whereas 11.6% of the retail outlets were standalone stores.

We continued the strategy to further penetrate the markets in the lower tier cities in the PRC, where we already had significant presence. We believe there is strong demand for quality branded products and higher potential for growth in the number of retail outlets in the lower tier cities in the PRC due to a higher growth rate of urbanization and faster rising disposable income in these regions as compared to the higher tier cities.

As of 31 December 2019, approximately 35.9% of our retail outlets were located in first-tier cities and second-tier cities and the remaining retail outlets were located in lower tier cities including third-tier and fourth-tier cities. We believe our footprint has provided us with a strong foundation to capture future growth opportunities arising from different regions in the PRC.

* For identification purposes only

The following table shows the number of retail outlets (including 2 self-operated retail outlets in Quanzhou and 28 self-operated retail outlets in Beijing) in first-tier cities, second-tier cities and lower-tier cities as of 31 December 2019 and 31 December 2018:

Region	Number of stores			
	As of 31 December 2019		As of 31 December 2018	
First-tier cities ⁽¹⁾	43	8.6%	57	8.5%
Second-tier cities ⁽²⁾	136	27.3%	177	26.3%
Third-tier cities ⁽³⁾	231	46.4%	287	42.7%
Fourth-tier cities ⁽⁴⁾	88	17.7%	151	22.5%
	<u>498</u>	<u>100.0%</u>	<u>672</u>	<u>100.0%</u>

Notes:

- (1) First-tier cities include Beijing, Shanghai, Shenzhen and Guangzhou.
- (2) Second-tier cities include the capitals of provinces in the PRC (excluding Guangzhou), municipalities under the direct administration of the PRC central government (excluding Shanghai and Beijing), and the capital of the autonomous regions in the PRC.
- (3) Third-tier cities include prefecture-level cities in the PRC, excluding any first- and second-tier cities.
- (4) Fourth-tier cities include country-level and other township-level cities.

Besides, the Group started to place more efforts on online distributor to compensate the unsatisfactory retail performance. It sold more quantity of its products to online distributors who then sold the products to end customers through different third-party online platforms such as Tmall.com and JD.com.

Distribution Channel Management

As of 31 December 2019, the Group's distribution network included 50 distributors (2018: 50) and 82 sub-distributors (2018: 104). Among the 50 distributors, 9 (including their predecessors) had business relationships with us for more than ten years. We believe that we have cultivated strong, stable and long-standing relationships with our distributors, which have been core to our brand building efforts as well as our strong operating track record.

To facilitate our management over our distributors and retail outlets, we divide our distribution network into different regions in the PRC. We have assigned management teams dedicated to each of the regions. Each team is responsible for soliciting and selecting potential distributor candidates, supervising and communicating with our distributors and monitoring and conducting on-site inspections of retail outlets within their respective region. The Group has entered into a form of distribution agreements with its distributors, which contains additional terms, including, among other things, that the distributors are required to provide the Group with quarterly sales reports which contain information on their number of retail outlets, sales and inventory level of "FORDOO" products and the distributors are required to enter into sub-distribution agreements with their sub-distributors that are on substantially the same terms and conditions of the form of sub-distribution agreement provided by the Group.

The Group provides training for its distributors and their management teams. The training programs cover brand image, marketing strategies, operational best practice of other distributors as well as product knowledge. We also provide general training at our sales fairs to our distributors and their sub-distributors regarding market development, customer preferences, our design theme, production techniques and fabrics used and allow them to share operating knowledge and provide feedback from their retail outlets.

Marketing and Promotion

The Group believes that brand awareness is crucial to its long-term business development and a cornerstone of its future success. During the Year, the Group invested moderately in advertising and promotion to enhance its brand awareness, including organizing presentation events for new products and engaging in online advertisement through internet, e.g. www.163.com, and software value-added services to improve our brandname.

The Group continued to upgrade its existing retail outlets to enhance and reinforce its brand image. The Group decorated 28 new stores and renovated 24 existing stores during the Year. We endeavor to continue to gradually upgrade some of the stores operated by our distributors and their sub-distributors through store renovation and improvement of in-store design and layout.

Design and Product Development

The Group always puts great emphasis on product design and quality, as we believe our ability and commitment to provide fashionable and comfortable products have been integral to our success. As of 31 December 2019, our product design and development team consisted of 37 members. The key team members, who plan, implement, supervise and manage the design and development efforts, have an average of 10 years of experience in the fashion industry. We will continue to invest in our product design and research and development capabilities to capture fashion trends and product designs.

Sales Fairs

We generally organize sales fairs at our headquarters in Quanzhou to showcase our upcoming products for the spring/summer and autumn/winter collections to our existing and potential distributors and their sub-distributors. We review our distributors' orders placed at our sales fairs to ensure that they are reasonable and in line with the relevant distributor's capacity and development plans. The sales fairs for 2019 autumn/winter collections was held in March 2019, and the sales fair for 2020 spring/summer collections were held in August 2019.

Liquidity and Financial Resources and Capital Structure

As at 31 December 2019, the total cash and bank balances of the Group were approximately RMB488.1 million (2018: RMB624.5 million), comprising cash and cash equivalents of approximately RMB471.4 million (2018: RMB541.4 million), pledged bank deposits of approximately RMB12.7 million (2018: RMB70.6 million), and fixed deposits held at bank with original maturity over three months of approximately RMB4 million (2018: RMB12.5 million).

As at 31 December 2019, the Group had a total of interest bearing borrowings of approximately RMB503.1 million (2018: RMB529.3 million) comprising bank and other borrowings of approximately RMB409.8 million (2018: RMB484.8 million) and corporate bonds of approximately RMB93.3 million (2018: RMB44.5 million). The Group's borrowings were primarily denominated in RMB and HK\$ (2018: in both RMB and HK\$) and bear interest at fixed rate (2018: fixed rate) ranging from 5.0% to 7.5% (2018: 3.75% to 9.0%) per annum.

The maturity profile of the borrowings as at 31 December 2019 was as follows:

	2019		2018	
	<i>RMB million</i>	<i>%</i>	<i>RMB million</i>	<i>%</i>
— Within 1 year or on demand	438.4	87.2%	434.8	82.1%
— Over 1 but within 2 years	44.4	8.8%	26.5	5.0%
— Over 2 but within 5 years	3.2	0.6%	7.7	1.5%
— Over 5 years	17.1	3.4%	60.3	11.4%
Total	<u>503.1</u>	<u>100.0%</u>	<u>529.3</u>	<u>100.0%</u>

As at 31 December 2019, the gearing ratio was approximately 46.0% (2018: 37.5%). The increase was mainly due to the decrease of total equity. The Group's gearing ratio is measured by the total interest-bearing borrowings divided by total equity and multiplied by 100%.

As at 31 December 2019, the Group's total equity decreased by approximately RMB315.5 million to approximately RMB1,094.2 million (2018: RMB1,409.7 million). The decrease was mainly due to the incur of loss for the year.

Trade Working Capital Ratios

The Group's average inventory turnover days was 55 days for the Year, as compared to 43 days for the previous year. The increase was mainly due to the underperformed turnover level because of decreased orders from customers.

The Group's average trade receivables turnover days was 165 days for the Year, representing an increase of 25 days from 140 days for the previous year. As at 31 December 2019, the Group's total trade receivables decreased by approximately 28.1% year-on-year to RMB136.2 million (31 December 2018 (Re-presented): RMB189.3 million). The increase in trade receivables turnover days was mainly due to the long outstanding trade receivables of some customers which have ceased trading with the Group. The ability to recover such overdue receivables is low and hence provision for partial receivables had been made.

The Group's average trade payables turnover days was 20 days for the Year, representing an increase of 1 days from 19 days for the previous year. We normally have 30 to 60 days credit period from our suppliers. The Group had negotiated with suppliers to obtain longer credit period to improve the liquidity and hence it increased the trade payables balance and the trade payables turnover days.

The Group recorded a net debt to equity ratio of approximately 1.4% as at 31 December 2019 (31 December 2018: net cash position).

The Group regularly and actively monitors its capital structure to ensure there is sufficient working capital to operate its business and to maintain a balanced capital structure between providing steady returns to the Shareholders and benefits to its other stakeholders and having an adequate level of borrowing and security.

Charges of Assets

As at 31 December 2019, secured bank borrowings were secured by bank deposits, certain buildings, investment properties and land use rights with carrying value of approximately RMB12.7 million (2018: RMB70.6 million), approximately RMB237.9 million (2018: RMB218.9 million), approximately RMB21.4 million (2018: RMB22.6 million) and approximately RMB246.0 million (2018: RMB253.1 million), respectively.

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies

Disposal of Subsidiaries

In October 2019, we completed a disposal transaction, which pursuant to the share transfer agreement to disposal 100% of the equity interests in Rich Smooth Investment International Limited and its subsidiaries (together, the “**Disposed Group**”) for a total cash consideration of RMB17,000,000 (“**the Disposal**”).

The main businesses of the Disposed Group are (i) online platform and retails shops and (ii) goose retail and by products in the PRC. The financial performance of the Disposed Group had not been meeting expectation of the management. The Company intended to realise the investment in the Disposed Group rather than devoting further resource to the Disposed Group which is loss making. The Disposal did not constitute a disclosable transaction according to the Rules Governing the Listing of securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Except for the above Disposal during the Year, there was no other significant investment, material acquisition or disposal of subsidiaries and associated companies by the Company.

Future Plans for Material Investments and Capital Assets

Fordoo commercial centre

Our Fordoo commercial centre project in Hui'an is under the construction stage. The whole project is principally funded by cash generated from our operations and bank borrowings.

For the purpose of annual impairment review, the Company had engaged an independent valuer (the “**Independent Valuer**”) to assess the value of the construction in progress and an independent quantity surveyor (the “**Quantity Surveyor**”) to prepare a progress report to assess the progress of construction as at 31 December 2019.

The Independent Valuer and Quantity Surveyor issued a valuation report and a progress report of the construction in progress after conducting a physical on-site inspection in later April 2020. The progress report shows that the progress of construction is not as expected, which is also consistent with the conclusion drawn by the Independent Valuer in the valuation report. Therefore the value of the construction in progress is lower than the combined carrying amount of construction in progress and prepayment of construction in progress. As set out in note 9 to the consolidated statements, an impairment loss of approximately RMB147.3 million has been recognized for the construction in progress.

Due to the high turnover of the officials in the local government authorities responsible for construction of the supporting facilities for the commercial centre, such as roads and wastewater pipes, such supporting facilities for the Fordoo Commercial Centre have yet been completed which hindered the progress of construction of the project. Therefore, the Fordoo Commercial Centre project cannot be completed in 2021 as originally expected timetable to complete the project in 2021 as stated in 2018 annual report. The Directors are aware that it is not uncommon for infrastructure projects to experience cost overruns and/or delay and the Company had been making continuous effort in negotiation with the relevant authorities.

According to the revised timetable, we expect the whole construction project will be completed by 2022.

Capital Commitments and Contingencies

As at 31 December 2019, the Group had a total capital commitment of approximately RMB169.5 million. It was primarily related to the proposed construction of Fordoo commercial centre in Hui'an, Fujian Province. All the capital commitments are expected to be financed by our operations and bank borrowings.

As at 31 December 2019, the Group had no material contingent liabilities.

Foreign Currency Exposure

The functional currency of the Company is Hong Kong dollar and the Company's financial statements are translated into Renminbi for reporting and consolidation purpose. Foreign exchange differences arising from translation of financial statements are directly recognised in equity as a separate reserve. As the Group conducts its business transactions principally in Renminbi, other than the US dollar fixed deposit held in bank, the exchange rate risk at the Group's operational level is not significant. The Group does not employ any financial instruments for hedging purpose.

Employees, Training, and Development

The Group had a total of 518 employees as at 31 December 2019 (2018 (Re-presented): 918). Total staff costs for the year amounted to approximately RMB45.9 million (2018 (Re-presented): RMB66.6 million).

The Group places strong emphasis on recruiting quality personnel from universities and technical schools and provides on-going training and development opportunities to our staff members. Our training programs cover topics such as sales and production, customer service, quality control, sales fairs planning and pre-employment training. We also provide training on workplace ethics, fire protection and other areas relevant to the industry. We believe that staff training plays an important role in recruiting and retaining talent as well as enhancing employees' loyalty.

The Group offers competitive remuneration packages to its employees, including basic salary, allowances, insurance, commission/bonuses and share options, based on factors such as market rates, responsibility, job complexity and the Group's performance.

Dividend

The Board does not recommend the declaration of the payment of a final dividend for the Year.

Use of Proceeds

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 July 2014 with net proceeds (the "**Net Proceeds**") from the global offering of approximately HK\$454.7 million (after deducting underwriting commissions and related expenses). Part of these proceeds were applied during the financial year in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 30 June 2014 (the "**Prospectus**"). As at 31 December 2019, the Group had utilised HK\$385.1 million of the Net Proceeds and unutilised Net Proceeds amounted to HK\$69.6 million.

The following table sets forth a breakdown of the use of the Net Proceeds during the Year:

Use of Net Proceeds during the Year	<i>HK\$ million</i>
Brand promotion and marketing	–
Research, design and product development	4.7
Repay a portion of our bank borrowings	–
Expand distribution network and provide storefront decoration	–
Install ERP system	–
Working capital and other general corporate purposes	–
	4.7

As at 31 December 2019, the accumulated use of the Net Proceeds is set out below:	Available for use <i>HK\$million</i>	Utilized (as at 31 December 2019) <i>HK\$million</i>	Unutilized (as at 31 December 2019) <i>HK\$million</i>
Brand promotion and marketing	122.8	(122.8)	–
Research, design and product development	90.9	(46.8)	44.1
Repay a portion of our bank borrowings	90.9	(90.9)	–
Expand distribution network and provide storefront decoration	59.1	(59.1)	–
Install ERP system	45.5	(20.0)	25.5
Working capital and other general corporate purposes	45.5	(45.5)	–
	454.7	(385.1)	69.6

The proceeds not utilised were deposited into interest bearing bank accounts with licensed commercial banks in China. The Directors intend to continue to apply the unused proceeds in the manner as set out in the Prospectus.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the Company’s code of conduct regarding Directors’ securities transactions.

Senior management who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code.

According to code provision A.3(a) of the Model Code, a Director must not deal in any securities of the Company on any day on which its financial results are published and during the period of 60 days immediately preceding the publication date of the annual results, as well as any period of delay in the publication of the annual results announcement (the “**Black-out Period**”). The Black-out Period commenced on 27 January 2020 and ended on 8 May 2020 (both dates inclusive). According to code provision B.8 of the Model Code, a director must not deal in any securities of the issuer without first notifying in writing the chairman or a director (otherwise than himself) designated by the board for the specific purpose and receiving a dated written acknowledgement.

An executive Director, Mr. Kwok Hon Fung, through Equal Plus Limited, a company wholly-owned by him, disposed of 433,000 shares of the Company during the Black-out Period in the open market without prior notice to the chairman of the Board. For further details, please refer to the Company’s announcement dated 28 April 2020.

Save as disclosed above, and upon specific enquiries, all Directors and senior management of the Company confirmed that they have complied with the relevant provisions of the Model Code throughout the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules up to the date of this announcement.

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE “CG CODE”)

In the opinion of the Directors, the Company has complied with all applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2019, except for a deviation from Code provision A.6.7.

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders. Due to other pre-arranged business commitments, Mr. Cheung Chiu Tung and Ms. Huang Yumin, both independent non-executive Directors, were not able to attend the Annual General Meeting of the Company held on 31 May 2019 due to other pre-arranged business commitments.

The Board currently comprises three executive Directors and four independent non-executive Directors, with independent non-executive Directors representing over 50% of the Board, which is higher than the requirement of the Listing Rules. Such percentage of independent non-executive Directors on the Board can ensure their views would carry sufficient weight and enhance the independence of the Board. On the above basis, the Board considers that the current board structure will not impair the balance of power and the authority of the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

SHARE ISSUED IN THE YEAR

Upon the Company’s subdivision of every one (1) issued and unissued share of the Company of par value of HK\$0.01 into four (4) subdivided shares of the Company of par value of one fourth Hong Kong cent each (the “**Share Subdivision**”) was effective on 17 October 2019, the authorised share capital of the Company became HK\$10,000,000 divided into 4,000,000,000 shares of par value of one fourth Hong Kong cent each, of which 1,923,600,000 subdivided shares of par value of one fourth Hong Kong cent each was issued as fully paid and rank *pari passu* with each other in all respects with the shares in issue prior to the Share Subdivision.

IMPORTANT EVENTS AFTER THE REPORT PERIOD

At the beginning of 2020, the COVID-19 outbreak had certain impact on the Group’s businesses, but the Group quickly responded with caution and is actively taking all possible measures to bring the business operation back to normal in a timely fashion. As of the date of this announcement, all factories of the Group have resumed production. The management of the Group will remain vigilant to the development of COVID-19 outbreak and continuously evaluate the potential impacts on its businesses.

REVIEW OF ANNUAL RESULT

The audit committee (the “**Audit Committee**”) consists of the three independent non-executive Directors, namely Mr. Poon Yick Pang Philip (Chairman of the Audit Committee), Mr. Cheung Chiu Tung and Ms. Huang Yumin. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, financial reporting, internal control and risk management systems, and has reviewed the audited annual financial results for the year ended 31 December 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual report for the Year will be dispatched to the shareholders of the Company and published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company’s website at www.fordoo.cn in due course. This announcement can also be accessed on the above websites.

By Order of the Board
China Fordoo Holdings Limited
Kwok Kin Sun
Chairman and Executive Director

Hong Kong, 8 May 2020

As at the date of this announcement, the executive directors of the Company are Mr. Kwok Kin Sun, Mr. Kwok Hon Fung and Ms. Mo Wei; and the independent non-executive directors of the Company are Mr. Cheung Chiu Tung, Mr. Poon Yick Pang Philip, Ms. Huang Yumin and Mr. Steve Andrew Chen.