

HINGTEX HOLDINGS LIMITED 興紡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1968

ANNUAL REPORT
2020



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CHAIRMAN'S STATEMENT

The combination of the 2019 Novel Coronavirus ("COVID-19") pandemic and trade tensions between the United States (the "U.S.") and the People's Republic of China (the "PRC") resulted in a highly challenging year, as reflected by a decline in economic growth and business investment around the world. Both the denim market and retail industry were invariably impacted, which in turn also affected the performance of Hingtex Holdings Limited (the "Company" or "Hingtex") and its subsidiaries (collectively, the "Group"). Consequently, the Group recorded revenue totalling HK\$255.4 million (2019: HK\$506.3 million) and gross profit of HK\$23.8 million (2019: HK\$102.7 million) for the year ended 31 December 2020 (the "year"). Owing to suppressed economies of scale, gross profit margin decreased to 9.3% as at the year (2019: 20.3%). Loss attributable to owners of the Company was HK\$41.0 million (2019: profit attributable to owners of the Company of HK\$5.27 million), while loss per share were HK6.41 cents (2019: earnings per share of HK0.82 cents) for the year ended 31 December 2020.

Despite the difficult business environment, the Group remains in a healthy financial position. In addition to steady operating cash flows, the Group also has cash and cash equivalents of approximately HK\$160.9 million for the year (2019: HK\$156.8 million).

BUSINESS REVIEW

Impact of COVID-19

The outbreak of COVID-19 in late 2019, which subsequently was characterised by the World Health Organization as a pandemic in March 2020, brought lockdowns across many countries and cities around the world, including Europe and the U.S. As a result, a large majority of retail brands suspended the operation of their European and American outlets, leaving the textile industrial chain in dire straits. Compounding matters was a sharp spike in COVID-19 cases in the U.S. during the second quarter of 2020, which impacted the Group's business as the majority of its brand owner customers (the "Brand Owner") are based in the country. Furthermore, the implementation of travel restrictions globally due to the COVID-19 pandemic has led to the suspension of marketing activities, including product promotions in Europe and the PRC, which ultimately affected sales activities that would otherwise benefit U.S. Brand Owners. In view of the above, the Group has decided to temporarily suspend the expansion of production capacity in its Zhongshan factories. It will also forgo participation in overseas and PRC fabric exhibitions.

Measures taken to tackle COVID-19

Following the outbreak of COVID-19, the Group took swift action to mitigate its impact on operations, including the procurement of protective products to maintain high hygiene levels at all of the Group's workplaces in Hong Kong and the PRC. To ensure the safety of colleagues and visitors, the Group purchased large quantities of COVID-19 Rapid Test kits, along with ample hygiene and cleaning products. In addition, it implemented an alternating work-from-home policy when the pandemic took a turn for the worse in February and April 2020. Furthermore, more stringent cost-saving measures were introduced as conditions deteriorated.

Despite the tremendous impact of the COVID-19 pandemic, the Group was able to retain approximately 50% of its sales during the year, which in turn led to a lower inventory turnover rate as well as weakened the influence of the pandemic on its revenue and margins. Moreover, the “new normal” of remotely working from home and staying at home as part of social distancing measures has expedited the online shopping trend. This has subsequently led to the positive sales growth of leisure clothing and denim.

Impact of Sino-U.S. trade war

During the early part of the year, the protracted Sino-U.S. trade war continued, thus hindering the Group's financial growth. Though orders returned to normal levels in the first quarter after Phase One of the Economic and Trade Agreement was signed by the two parties in January 2020, this upturn was short lived as both Europe and the U.S. were impacted by COVID-19 in March, the aftermath of which was felt by the Group for the remaining year. Furthermore, shipment routes taken by garment manufacturers outside Hong Kong and the PRC have continued to decline during the year (2020: 41.8%; 2019: 47.2%) so as to avoid any additional tariffs imposed on products exported to the U.S. from the PRC. This has consequently resulted in fewer orders when compared with past years.

Prospects

The past year was highly challenging owing to uncertainties arising from strained trade ties between the PRC and the U.S., and the outbreak of the COVID-19 virus. In 2021, global economic growth is expected to remain subdued owing to both concerns, hence calling for more conservative expectations towards the industry and the Group's prospects.

With the rollout of COVID-19 vaccines around the world, the Group is nevertheless optimistic about its own business development further down the road. To support such optimism, it will persist in raising its competitiveness so as to quickly react to positive market adjustments when they appear. Correspondingly, the Group will continue with research and development (“R&D”) efforts, including the development of environmentally friendly products and practices in order to improve its competitiveness and protect the environment.

Even though the outbreak of COVID-19 resulted in the temporary suspension of production, the Group has nonetheless been able to enhance production-related processes on an ongoing basis. This has been realised by increasing investment in equipment and other hardware, and has extended to enhancements made to the sewage disposal system. In addition, the Group has contracted an engineering company to build waste water treatment facilities within its Zhongshan factories in order to better utilise waste water. The treatment facilities will commence operation in early April 2021, and will enable the Group to reuse water throughout the different stages of the dyeing and finishing processes. Consequently, alongside controlling costs and enhancing production efficiency, the Group will be able to further reduce its environmental footprint — in terms of curbing air and water pollution, all at the same time.

CHAIRMAN'S STATEMENT (CONTINUED)

In addition, the Group has continued to focus R&D on creating denim fabrics that have advanced functionalities while maintaining the high-quality, comfort and sustainable qualities that Hingtex is renowned for. Even though most of the Group's business partners adopted work-from-home practices, the Group was able to efficiently research and develop different recyclable fabrics while concurrently liaise with such partners, leading to the securing of more orders. Moreover, with social distancing now becoming part of the "new normal", the Group will place greater effort on seizing opportunities arising from e-commerce so as to develop additional income streams.

Following a review of operating expenses, the Group has elected to re-allocate part of the unutilised net proceeds from its share offer (the "Share Offer") as general working capital. Such proceeds will be used for daily business operations and as a contingency for coping with possible economic uncertainties in the future. Since the re-allocation supplements the Group's general working capital, this will enable the Group to have greater flexibility in terms of cash flow management given the enriched financial resources at its disposal. The Group reserves the right to apply the proceeds for its business expansion as and when suitable opportunities arise.

It is worth noting as well that with agreements reached on the sharing of tariff-related costs with its business partners, the Group anticipates business will gradually return to normal. Also, as the turbulent business environment eventually subsides, orders are expected to take an even more encouraging turn. With 40 years in the textile industry, the Group will leverage all of its experience and might to further enhance Hingtex's brand equity and explore business opportunities across various markets. In this way, the Group can transform into a more diversified operation, complete with extensive business network for facilitating its long-term advancement.

TUNG Tsun Hong

Chairman and Executive Director

Hong Kong, 29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

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

As disclosed in the announcement of the Company dated 9 March 2021, having considered, among others, (i) the impact of COVID-19 on the Group’s operating results for the year; (ii) the cash outflows experienced by the Group since early 2020 due to customers’ request for longer credit period while the Group continued to settle its payment obligations to its suppliers on time; and (iii) the implementation of travel restrictions globally due to COVID-19, the board (the “Board”) has resolved to temporarily put on hold (i) the expansion of the Group’s production capacity in Zhongshan, the PRC; and (ii) participation in overseas and PRC fabric exhibitions, and revise the allocation of the net proceeds as shown below.

The following sets forth a summary of the utilisation of the net proceeds:

	Net Proceeds from the Share Offer (Note) HK\$' million	Revised allocation of the proceeds HK\$' million	Actual use of proceeds as at the date of this report HK\$' million	Remaining proceeds as at the date of this report HK\$' million	Expected timeframe of full utilisation of the remaining proceeds
Purchase of production machinery and equipment and enhance product development capacity	140.1	103.3	53.2	50.1	By the end of 2022
Attend overseas and PRC fabric exhibitions	3.2	–	–	–	–
General working capital	3.7	43.7	3.7	40.0	By the end of 2022
	147.0	147.0	56.9	90.1	

Note: The application of the net proceeds from the Share Offer is based on the proposed percentage of utilisation as specified in the section headed “Future Plan and Use of Proceeds” in the prospectus of the Company dated 28 June 2018.

All unutilised net proceeds have been placed with banks in Hong Kong. The Group intends to apply the remaining proceeds as shown above.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

As at 31 December 2020, bank balances and cash increased by HK\$4.1 million to HK\$160.9 million (2019: HK\$156.8 million), primarily due to the expiry of the term of the structured bank deposit of HK\$7.8 million during the year. Inventories decreased by HK\$56.9 million to HK\$145.2 million (2019: HK\$202.1 million) as a result of strategic utilisation of existing raw materials and the approach of maintaining purchases to a minimum. Trade and bills receivables decreased by HK\$4.3 million to HK\$28.5 million (2019: HK\$32.8 million) mainly due to less denim fabrics sold and delivered in the fourth quarter of 2020 against the comparable period in 2019. Current liabilities decreased by HK\$30.5 million to HK\$133.2 million (2019: HK\$163.7 million) mainly due to less purchases made close to 2020 year-end when compared with the same period in 2019.

The Group's revenue decreased by approximately 49.5% from approximately HK\$506.3 million in 2019 to approximately HK\$255.4 million in 2020. Loss for the year attributable to owners of the Company for 2020 was approximately HK\$41.0 million (2019: profit for the year attributable to owners of the Company approximately HK\$5.3 million). The decrease in revenue and the net loss incurred during the year were mainly attributable to, alongside with the impact of the Sino-U.S. trade war, the outbreak of COVID-19 since late 2019. The Group will pay close and continuous attention on the situation of the COVID-19 pandemic and react proactively to its impact on the financial position and operating results of the Group.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had no capital commitment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2020, net current assets were approximately HK\$236.3 million (2019: HK\$276.8 million). Bank balances and cash as at 31 December 2020 were approximately HK\$160.9 million (2019: HK\$156.8 million).

As at 31 December 2020, there were bank borrowings of approximately HK\$66.6 million (2019: HK\$65.0 million), and the Group has HK\$112.3 million in available banking facilities as at 31 December 2020 (2019: HK\$171.8 million).

GEARING RATIO

As at 31 December 2020, the gearing ratio of the Group, based on total borrowings (including bank borrowings and lease liabilities) to total equity (including all capital and reserves) of the Group, was 19.8% (2019: 17.5%).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 394 employees (2019: 443 employees). The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. Remuneration packages offered to the Group's employees are consistent with prevailing levels and are reviewed on a regular basis. Discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and that of the individual employee. The Group provides training to employees. In the year ended 31 December 2020, the Group had not encountered any significant problems with its employees, nor had there been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff.

A share option scheme (the "Share Option Scheme") was adopted on 19 June 2018 by the Company. As at 31 December 2020 and up to the date of this report, no share options were granted.

CAPITAL EXPENDITURE

The Group's capital expenditure was HK\$8.1 million during the year (2019: HK\$41.9 million), which was mainly due to the capital investments in the Group's property, plant and equipment.

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

As at 31 December 2020, the Group's bank borrowings carried variable rates from 1.4% to 4.2% per annum (2019: 2.2% to 4.1%).

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

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liability.

PLEDGE OF ASSETS

As at 31 December 2020, the Group's lease liabilities were secured by, among others, its property, plant and equipment with carrying value of approximately HK\$3.8 million (2019: HK\$5.1 million).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tung Tsun Hong (董信康先生) (“Mr. TH Tung”), aged 80, the founder of the Group, the chairman of the Board, an executive director (the “Director”) and one of the controlling shareholders. Mr. TH Tung joined the Group on 16 January 1981. Mr. TH Tung has approximately 62 years of experience in the textile and apparel industry. He is primarily responsible for overseeing the Group’s overall development strategy. He is the father of Mr. Stephen Tung and Mr. Stanley Tung, both being executive Directors.

Mr. Tung Wai Ting Stephen (董韋霆先生) (formerly known as Mr. Tung Hak Ming Stephen (董克明先生)) (“**Mr. Stephen Tung**”), aged 51, the chief executive officer, an executive Director and one of the controlling shareholders. Mr. Stephen Tung joined the Group on 6 October 1995. Mr. Stephen Tung obtained a Bachelor of Commerce degree at the University of Toronto in Canada in June 1993, and has approximately 25 years of experience in the textile and apparel industry. He is primarily responsible for administration, finance and production of the Group. Mr. Stephen Tung is the son of Mr. TH Tung, and brother of Mr. Stanley Tung, both being executive Directors.

Mr. Tung Cheuk Ming Stanley (董卓明先生) (“Mr. Stanley Tung”), aged 47, the sales director, an executive Director and one of the controlling shareholders. Mr. Stanley Tung joined the Group on 1 April 1997. Mr. Stanley Tung obtained a Bachelor of Arts degree from University of Toronto in Canada in November 1996, and has approximately 24 years of experience in the textile and apparel industry. He is primarily responsible for the sales and marketing of the Group. Furthermore, he has been assisting our product development by participating in international fabric exhibitions and fashion shows in various countries including the PRC and the United States. He is the son of Mr. TH Tung, and brother of Mr. Stephen Tung, both being executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu Gilbert (曾令鏢先生), aged 50, an independent non-executive Director. Mr. Tsang joined the Group on 19 June 2018. He is primarily responsible for supervising and providing independent advice to the Board. He is also the chairman of our audit committee. Mr. Tsang has over 23 years of experience in finance and accounting. Mr. Tsang obtained a Master of Commerce in Accounting and Finance from the University of New South Wales in Australia in 1995, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia in 1996. Mr. Tsang is also a fellow member of the CPA Australia (Certified Practising Accountants).

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

Mr. Cheung Che Kit Richard (張之傑先生), aged 49, an independent non-executive Director. Mr. Cheung joined the Group on 19 June 2018. He is primarily responsible for supervising and providing independent advice to our Board. He is also a member of our audit committee, remuneration committee and nomination committee. Mr. Cheung obtained a Bachelor of Commerce degree with first class honour from Queen’s University in Canada in May 1995. Subsequently he obtained his Master’s degree in Business Administration with high distinction from Harvard Business School in the United States in June 2001. Since 2010, Mr. Cheung has been working as an executive director (Customer and International Business Development) for the Hong Kong Jockey Club. He is responsible for channeling gaming demand in all of racing, football and lottery wagering business, which also includes the exporting of the Hong Kong racing betting product to overseas jurisdictions.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生), aged 42, an independent non-executive Director. Mr. Leung joined the Group on 19 June 2018. He is primarily responsible for supervising and providing independent advice to our Board. He is also the chairman of our remuneration committee and nomination committee, and a member of our audit committee. Mr. Leung obtained a Master of Arts degree in Economics from the University of Cambridge in the United Kingdom in March 2003, and has approximately 21 years of experience in the textile and apparel industry.

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

Mr. Leung is currently an independent non-executive director of Lai Sun Development Company Limited (stock code: 488), a Hong Kong-based investment holding company principally engaged in property investment, property development and investment in and operation of hotels and restaurants.

SENIOR MANAGEMENT

Ms. Poon Yuet Ling (潘月玲女士), aged 61, joined the Group on 5 August 1986 and is currently the senior accounting manager. Ms. Poon is primarily responsible for overseeing daily accounting operation, financial management, administration and human resource management of the Group. Ms. Poon completed her secondary education in Hong Kong in July 1977 and obtained an intermediate group certificate in business studies at the Hong Kong School of Commerce in February 1978. She has over 32 years of experience in accounting practice.

Mr. Tung Ming Po (董鳴寶先生), aged 74, is currently our assistant general manager. Mr. MP Tung is primarily responsible for administering and coordinating the manufacturing process of the Group. Prior to joining the Group, Mr. MP Tung worked in the same shipping agency for over 21 years, with his last position being the manager of the licenced crew department. As the manager, he was in charge of the manning of crew and officers such as recruitment, deployment and relief planning. Mr. Tung moved to Australia in December 1989 and returned to Hong Kong in September 1992, and joined the Group in October 1992.

Mr. Li Chi Hiu Lawrence (李之曉先生), aged 46, joined the Group on 1 July 2004 and is currently our sales manager. Mr. Li is primarily responsible for overseeing the sales management of the Group. Mr. Li graduated from the Seneca College of Applied Arts & Technology in Toronto, Canada in April 1997, and has more than 20 years of experience in the textile industry. Prior to joining our Group in 2005, Mr. Li was the project manager in Tiong Liong Industrial Company, a company based in Taiwan which manufactures and supplies functional textiles.

Mr. Cheung Ka Chun (張家俊先生), aged 38, was appointed as the chief financial officer and the company secretary of our Company on 16 January 2018 and is primarily responsible for (i) overseeing the financial and accounting functions of our Group and (ii) handling corporate secretarial and compliance work of our Group. Mr. Cheung has over 12 years of experience in audit and assurance and multi-national certified public accounting firms. Mr. Cheung was awarded the bachelor's degree of Business Administration (majoring in accounting and finance) by the University of Hong Kong in December 2004. He is a member of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Board is pleased to submit this annual report together with the consolidated financial statements for the year ended 31 December 2020, which have been audited by the Company's auditors Deloitte Touche Tohmatsu, Certified Public Accountants and reviewed by the audit committee of the Company (the "Audit Committee").

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated financial statements of profit or loss and other comprehensive income on page 40.

The state of the Group's affair as at 31 December 2020 is set out in the consolidated statement of financial position on pages 41 to 42.

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

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$409,000.

PROPERTY, PLANT AND EQUIPMENT

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 43.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2020, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$121,217,000.

PRE-EMPTIVE RIGHTS

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

SHARE CAPITAL

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

DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

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

REPORT OF THE DIRECTORS (CONTINUED)

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

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

PERMITTED INDEMNITY PROVISIONS

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the model code for securities transactions by Directors of listed issuers (the "Model Code"), are as follows:

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

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

Notes:

1. The letter "L" denotes a long position in the Shares.
2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Ms. Lau Chung Chau ("Mrs. Tung"), Ms. Tung Wei Ling Barbara ("Ms. Barbara Tung") and Ms. Tung Wai Lai Mabel ("Ms. Mabel Tung") entered into the Deed of Concert Parties (as defined in the Company's prospectus dated 28 June 2018), pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment Holdings Limited ("Manford Investment") is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

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

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

Notes:

- The letter "L" denotes long position in the shares held.
- Manford Investment is interested in 75% of the issued Shares immediately following completion of the Capitalisation Issue and the Share Offer (as defined in the Company's prospectus dated 28 June 2018) (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option (as defined in the Company's prospectus dated 28 June 2018) and any option which may be granted under the Share Option Scheme) and, accordingly, is the holding company of our Company within the meaning of the SFO.
- Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of the subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors nor the chief executive of our Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS (CONTINUED)

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, so far as the Directors were aware, the following persons had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

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

Notes:

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the Senior Management are set out on pages 8 to 9.

SHARE OPTION SCHEME

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

Purpose of the Share Option Scheme

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

Participants of the Share Option Scheme

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

- (i) any employee (whether full time or part time) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the "Invested Entity");
- (ii) any Directors (including independent non-executive Directors) of the Company, any subsidiary or any Invested Entity;
- (iii) any suppliers of goods and services to any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

REPORT OF THE DIRECTORS (CONTINUED)

- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group

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

Shares available for issuance

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

As at 29 March 2021, being the date of this report, the outstanding number of share options available for grant under the Share Option Scheme is 64,000,000 share options to subscribe for the Shares, representing 10% of the issued share capital of the Company.

Maximum entitlement of each eligible participant

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

Time for exercising option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption on 19 June 2018.

The remaining life of the Share Option Scheme is approximately seven years and two months (expiring on 19 June 2028).

Payment on acceptance of the option

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

Basis of determining exercise price of the option

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the sub-section headed "Connected Transactions" below and "Related Party Transactions" in note 34 to the consolidated financial statements, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected Transactions" below and "Related Party Transactions" in note 34 to the consolidated financial statements, no controlling shareholder or any of their respective subsidiaries had a material interest, either directly or indirectly, in any contract of significance to the business of the Group, to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, during the year.

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

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

The emoluments of the Directors and senior management of the Group are determined by the Remuneration Committee with reference to their relevant qualifications, experience, competence and the prevailing market conditions. None of the Directors waived or agreed to waive any emoluments during the year ended 31 December 2020.

Details of the Directors' remuneration of the Group as at the date of this annual report are set out in note 13 to the consolidated financial statements.

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

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

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the shareholders of the Company.

CORPORATE GOVERNANCE CODE

The Company has applied and complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") for the year ended 31 December 2020 and up to the date of this annual report. For details, please refer to the Corporate Governance Report on page 24 of this annual report.

AUDIT COMMITTEE

The Company has established the Audit Committee. For details, please refer to the paragraph headed "Audit Committee" of the Corporate Governance Report set out on page 28 of this annual report.

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

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

The largest customer/supplier	18.2%/29.5%
Five largest customers/suppliers in aggregate	57.4%/81.6%

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

Air-filtering and conditioning system — The Group has implemented dust filters and air-conditioning system covering one of its workshops that houses over 70 weaving machines, which maintains room temperature and humidity, improves air flow and thereby provides a better operating environment for its staff. At the same time, greater weaving efficiency is achieved by reducing foreign particles being trapped inside fabrics during the weaving process. The same system for the other workshop is expected to complete implementation in year 2021.

Heat shields and steam utilisation — Insulations have been installed on the cylinders of the Group's dyeing machines, which act as heat shields to prevent heat loss, reduce steam usage and improve room temperature of the Group's dyeing production line. The condensed hot water from steam generated for the Group's dyeing machines is further utilised to a. heat up water at workers' dormitory for domestic use; and b. be stored for future manufacturing use.

REPORT OF THE DIRECTORS (CONTINUED)

Waste water treatment — In order to better utilise the less-polluted waste water, the Group has contracted an engineering company to build waste water treatment facilities within our Zhongshan factory premises. Such facilities will enable the Group to reuse water throughout the different stages of the Group's dyeing and finishing procedures, which improve the environment and also reduce the Group's utility costs.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

CONNECTED TRANSACTIONS

Details of the Group's related party transactions for the year are set out in note 34 to the consolidated financial statements, some of which also constituted connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of the above-mentioned transactions. The following transactions entered into by members of the Group constituted non-exempt continuing connected transactions of the Company, subject to the announcement and annual reporting requirements but exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules by reason of the highest applicable percentage ratios (other than the profits ratio) in respect of the annual caps for the following transactions is more than 0.1% but less than 25%, and the total annual consideration is more than HK\$3 million but less than HK\$10 million:

Tenancy agreements with Star Alliance Holdings Limited ("Star Alliance")

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

Pursuant to a tenancy agreement dated 1 August 2020, Star Alliance further leased to the Group a property located at unit B6 on the 31st floor of TML Tower in Tsuen Wan, Hong Kong (the "Property B"). The term of the existing tenancy agreement in respect of the Property B commenced from 1 August 2020, and will expire on 31 July 2022 at a monthly rent of HK\$70,958 exclusive of rates, air-conditioning, management charges and other outgoings.

As at 31 December 2020, Star Alliance is owned as to 25% each by Mr. Tung Tsun Hong (chairman and executive Director), Mr. Tung Wai Ting Stephen (chief executive officer and executive Director), Mr. Tung Cheuk Ming Stanley (executive Director) and Ms. Lau Chung Chau (spouse of Mr. Tung Tsun Hong and mother of Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley). Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen, Mr. Tung Cheuk Ming Stanley and Ms. Lau Chung Chau are also controlling shareholders of the Company. Therefore, Star Alliance is a connected person of the Company.

Reasons for the transactions

The Group has been using Properties A and Property B under the above tenancy agreements (the "Tenancy Agreements") as its workshop, warehouse, ancillary office and car parking space since October 2013. Having considered that the rent is comparable to or below the prevailing market rent of comparable properties in the locality, and additional renovation and associated costs which the Group may incur if it moves out of the properties under the Tenancy Agreements and relocates to another premises, the Directors consider that it is desirable and in the interests of the Company and its shareholders as a whole to continue using the properties under the Tenancy Agreements as its workshop, warehouse, ancillary office and car parking space.

During the year, total rental paid or payable by the Group under the Tenancy Agreements with Star Alliance amounted to HK\$3,783,672, out of which HK\$3,428,882 were non-exempt continuing connected transactions, which did not exceed the proposed annual caps for these transactions of HK\$4,055,000 for the year.

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 20 to 22 of this annual report in accordance with Rule 14A.56 of the Listing Rules, confirming that nothing has come to their attention that causes them to believe that the continuing connected transaction set out above:

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

DEED OF NON-COMPETITION

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, the Group has no specific plan for material investments or capital assets as at 31 December 2020.

SUMMARY OF FINANCIAL INFORMATION

A financial information summary of the Group is set out on page 113 of this annual report.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2020 and up to the date of this annual report, none of the Directors is or was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules.

EQUITY-LINKED AGREEMENT

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

MANAGEMENT CONTRACTS

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

SUBSEQUENT EVENT

The Board is not aware of any significant event affecting the Group and requiring disclosure that took place subsequent to 31 December 2020 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, for the year ended 31 December 2020 and up to the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year were audited by Deloitte Touche Tohmatsu, Certified Public Accountants who will retire at the conclusion of the forthcoming annual general meeting (the "AGM") of the Company and, being eligible, will offer themselves for re-appointment. There has been no change in auditors since the Listing Date.

On behalf of the Board

TUNG Tsun Hong

Chairman and executive Director

Hong Kong, 29 March 2021

CORPORATE GOVERNANCE REPORT

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

The Company is committed to maintaining high standards of corporate governance in the interests of shareholders. The Company has complied with all code provisions of the CG Code of the Listing Rules for the year ended 31 December 2020.

THE BOARD

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPOSITION OF THE BOARD

The Board currently comprises three executive Directors (Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley) and three independent non-executive Directors (Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.). Among the executive Directors, Mr. Tung Wai Ting Stephen is the elder brother of Mr. Tung Cheuk Ming Stanley, and they are both sons of Mr. Tung Tsun Hong. Biographical details of the Directors of the Group as at the date of this annual report are set out on pages 8 to 9 of this annual report. Independent non-executive Directors account for more than one-third of the members of the Board. The independent non-executive Directors come either from the textile industry or have related professional background, bringing valuable expertise and experience that promotes the best interests of the Group and its shareholders. The role of the independent non-executive Directors is to provide independent and objective opinions to the Board for its consideration.

Chairman and the Chief Executive Officer

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

BOARD MEETINGS

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

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

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

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

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

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

Notes:

A: attending training sessions and/or seminars

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES

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

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

AUDIT COMMITTEE

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

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

During the year, three meetings of the Audit Committee were held and the Directors' attendance of the meetings of the Audit Committee is set out as follows:

Name of Directors	Attendance/ Number of Audit Committee Meetings
Mr. Tsang Ling Biu Gilbert (<i>Chairman</i>)	3/3
Mr. Cheung Che Kit Richard	3/3
Mr. Leung Wang Ching Clarence, <i>J.P.</i>	3/3

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

REMUNERATION COMMITTEE

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

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

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

Remuneration band	Number of individual
Not exceeding HK\$1,000,000	4

During the year, the remuneration packages of the Directors and the senior management of the Group were reviewed and discussed at the meeting of the Remuneration Committee and relevant recommendations have been made by the Remuneration Committee to the Board. One meeting of the Remuneration Committee was held during the year. The Directors' attendance of the meetings of the Remuneration Committee is set out as follows:

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

NOMINATION COMMITTEE

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

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

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

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

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

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

During the year, one meeting of the Nomination Committee was held and the Directors' attendance of the meeting of the Nomination Committee is set out as follows:

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibility of the external auditors of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 35 to 39.

COMPANY SECRETARY

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

EXTERNAL AUDITORS

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

During the year, the remuneration paid or payable to Deloitte Touche Tohmatsu, Certified Public Accountants in respect of audit services was HK\$1,580,000. The fee paid or payable to Deloitte Touche Tohmatsu, Certified Public Accountants for non-audit services, namely review of unaudited interim results of the Group for the six months ended 30 June 2020, was HK\$400,000.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions for the year ended 31 December 2020.

INVESTOR RELATIONS AND COMMUNICATION

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

GENERAL MEETINGS WITH SHAREHOLDERS

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

During the year, one general meeting was held, which was the annual general meeting for the year ended 31 December 2019. The attendance of each Director at the annual general meeting is set out below:

Name of Directors	Attendance/ Number of general meeting
Executive Directors	
Mr. Tung Tsun Hong (<i>Chairman</i>)	1/1
Mr. Tung Wai Ting Stephen (<i>Chief executive officer</i>)	1/1
Mr. Tung Cheuk Ming Stanley	1/1
Independent non-executive Directors	
Mr. Tsang Ling Biu Gilbert	0/1
Mr. Cheung Che Kit Richard	0/1
Mr. Leung Wang Ching Clarence, <i>J.P.</i>	0/1

SHAREHOLDERS' RIGHTS

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

Convening of extraordinary general meeting on requisition by shareholders

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Procedures for directing shareholders' enquiries to the Board

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

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

Email: general@hwtextiles.com.hk

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

Procedures for putting forward proposals at general meetings by shareholders

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

CONSTITUTIONAL DOCUMENTS

There has been no change in the memorandum and articles of association of the Company for the year ended 31 December 2020.



TO THE SHAREHOLDERS OF HINGTEX HOLDINGS LIMITED

興紡控股有限公司

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

OPINION

We have audited the consolidated financial statements of Hingtex Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 40 to 112, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS

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

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of non-current assets allocated to the manufacturing and sales of denim fabric cash-generating unit

We identified the impairment assessment of non-current assets allocated to the Group's manufacturing and sales of denim fabric cash-generating unit (the "Denim Fabric CGU") as a key audit matter because of its significance to the consolidated financial statements as a whole and the estimation uncertainty involved in the assessment of the recoverable amounts of the Denim Fabric CGU.

As disclosed in note 4 to the consolidated financial statements, the aggregate carrying amount of non-current assets allocated to the Denim Fabric CGU as at 31 December 2020 amounted to HK\$142,890,000, which represents approximately 28% of the Group's total assets.

As disclosed in note 16 to the consolidated financial statements, the management determines the recoverable amount of the Denim Fabric CGU by reference to a value in use calculation (the "VIU Calculation") performed by an independent qualified professional valuer not connected to the Group. The VIU Calculation is based on a cash flow projection with a pre-tax discount rate of 14%. The revenue growth rate and the expected gross profit margin in the cash flow projection are determined by reference to the historical performance of the Denim Fabric CGU and management's expectation of the market development.

Based on the result of management's assessment, no impairment loss is recognised for the Denim Fabric CGU for the year ended 31 December 2020.

Our procedures in relation to the impairment assessment of the non-current assets allocated to the Denim Fabric CGU included:

- Obtaining an understanding of management's process and basis in the impairment assessment;
- Evaluating the independent qualified professional valuer's competence, capabilities and objectivity;
- Assessing the appropriateness of the methodology used in determining the recoverable amount of the Denim Fabric CGU with the involvement of our internal valuation specialists by reference to the current market risk-free rate of interest and the industry specific risk factor;
- Evaluating the reasonableness of the discount rate used in the VIU Calculation with reference to the current market risk-free rate of interest and the industry specific risk factor with the involvement of our internal valuation specialists;
- Evaluating the reasonableness of the management's estimate of revenue growth rate and expected gross profit margin with reference to the historical performance of the Denim Fabric CGU and market data;
- Performing sensitivity analysis of key assumptions used and considering the impact to the recoverable amount of the Denim Fabric CGU and whether there were indicators of management biases; and
- Assessing the reliability of cash flow projection by comparing the estimated revenue and gross profit margin in previous periods and the corresponding actual revenue and gross profit margin in that period.

Key audit matter	How our audit addressed the key audit matter
<p>Estimated allowance for raw materials</p> <p>We identified the estimated allowance for raw materials as a key audit matter due to the significance of the balances to the consolidated statement of financial position as a whole, estimation uncertainty and the management judgment involved in the estimation of the net realisable values.</p> <p>As disclosed in note 23 to the consolidated financial statements, the carrying amount of raw materials included in inventories balances as at 31 December 2020 was HK\$51,396,000, net of write-down of HK\$500,000, which represents approximately 10% of the Group's total assets.</p> <p>As disclosed in note 4 to the consolidated financial statements, the management of the Group regularly reviews whether there are any indications of write-down of inventories, including raw materials, by taking into account the ageing of inventories, current market conditions and future sales plan. The Group writes down the value of raw materials if the carrying amount is higher than its net realisable value.</p>	<p>Our procedures in relation to valuation of raw materials included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the allowance policies on inventories, including raw materials, adopted by the Group and determining whether relevant controls have been properly designed and implemented; • Assessing the appropriateness of management's methodology used in determining the amount of write-down of raw materials by reference to the relevant accounting standards; • Testing the accuracy of the ageing of raw materials by tracing to supporting documents, on a sample basis; and • Evaluating the reasonableness of management's assumptions used in the estimation of the net realisable value of the raw materials with reference to market data and concluded sales orders.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chu Yim Yan, Sonia.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	Year ended 31 December	
		2020 HK\$'000	2019 HK\$'000
Revenue	5	255,443	506,257
Cost of sales		(231,643)	(403,587)
Gross profit		23,800	102,670
Other income	7	11,215	10,078
Other gains and losses	8	2,065	3,549
Impairment losses under expected credit loss model, net of reversal	9	(84)	272
Selling and distribution expenses		(17,929)	(27,539)
Administrative expenses		(59,422)	(76,897)
Share of results of a joint venture		(27)	90
Finance costs	10	(2,272)	(3,963)
(Loss) profit before tax	11	(42,654)	8,260
Income tax credit (expense)	12	1,622	(2,992)
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company		(41,032)	5,268
(LOSS) EARNINGS PER SHARE			
— Basic (HK cents)	14	(6.41)	0.82

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		At 31 December	
	NOTES	2020	2019
		HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	16	109,376	113,754
Right-of-use assets	17	28,196	28,859
Other intangible assets	18	4,134	4,626
Goodwill	19	1,184	1,184
Interest in a joint venture	20	4,310	4,337
Deferred tax assets	22	1,958	88
Total non-current assets		149,158	152,848
Current assets			
Inventories	23	145,210	202,058
Trade and other receivables	24	58,092	68,828
Tax recoverable		5,329	5,054
Structured bank deposits	21	–	7,800
Bank balances and cash	25	160,883	156,789
Total current assets		369,514	440,529
Current liabilities			
Trade and other payables	26	54,301	80,594
Amount due to a joint venture	27	137	122
Tax liabilities		7,159	8,420
Lease liabilities	28	4,462	7,631
Bank borrowings	29	66,550	64,983
Contract liabilities	30	562	1,968
Total current liabilities		133,171	163,718
Net current assets		236,343	276,811
Total assets less current liabilities		385,501	429,659

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2020

	NOTES	At 31 December 2020 HK\$'000	2019 HK\$'000
Non-current liabilities			
Lease liabilities	28	3,231	1,083
Deferred tax liabilities	22	6,929	7,083
Total non-current liabilities		10,160	8,166
Net assets		375,341	421,493
Capital and reserves			
Share capital	31	6,400	6,400
Reserves		368,941	415,093
Equity attributable to owners of the Company and total equity		375,341	421,493

The consolidated financial statements on pages 40 to 112 were approved and authorised for issue by the board of directors on 29 March 2021 and are signed on its behalf by:

Mr. Tung Tsun Hong
Director

Mr. Tung Wai Ting Stephen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2019	6,400	159,906	10,882	251,837	429,025
Profit and total comprehensive income for the year	-	-	-	5,268	5,268
Dividend recognised as distribution (note 15)	-	-	-	(12,800)	(12,800)
At 31 December 2019	6,400	159,906	10,882	244,305	421,493
Loss and total comprehensives expense for the year	-	-	-	(41,032)	(41,032)
Dividend recognised as distribution (note 15)	-	-	-	(5,120)	(5,120)
At 31 December 2020	6,400	159,906	10,882	198,153	375,341

Note:

Other reserve represents (i) deemed contribution totaling HK\$9,282,000 from certain shareholders of the Company for acquisition of Kingshine Investment Group Limited; and (ii) the difference between the aggregate share capital of HK\$1,605,000 and the share capital of the Company of HK\$5,000 immediately upon the completion of issue of ordinary shares to the Company's immediate and ultimate holding company for reorganisation purpose in 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	(42,654)	8,260
Adjustments for:		
Finance costs	2,272	3,963
Interest income	(1,379)	(2,350)
Share of results of a joint venture	27	(90)
Depreciation of property, plant and equipment	12,161	11,745
Depreciation of right-of-use assets	8,236	8,591
Amortisation of other intangible assets	492	514
Write down of inventories	950	–
Impairment losses recognised (reversed) on trade and bills receivables, net	84	(272)
Gain on disposal of property, plant and equipment	(196)	(1,272)
Net foreign exchange gain	(1,709)	(1,993)
Operating cash flows before movements in working capital	(21,716)	27,096
Decrease in inventories	55,898	62,024
Decrease in trade and other receivables	10,652	20,651
Decrease in trade and other payables	(26,293)	(33,482)
(Decrease) increase in contract liabilities	(1,406)	939
Increase (decrease) in amount due to a joint venture	15	(44)
Cash generated from operations	17,150	77,184
Income tax paid	(1,939)	(5,526)
NET CASH FROM OPERATING ACTIVITIES	15,211	71,658
INVESTING ACTIVITIES		
Withdrawal of structured bank deposits	7,800	–
Interest received	1,379	2,350
Proceeds on disposal of property, plant and equipment	477	1,965
Purchase of property, plant and equipment	(8,064)	(41,887)
Proceeds on release of restricted bank deposits	–	4,054
NET CASH FROM (USED IN) INVESTING ACTIVITIES	1,592	(33,518)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
FINANCING ACTIVITIES		
New bank borrowings raised	122,861	73,109
Repayment of bank borrowings	(121,294)	(116,076)
Repayment of lease liabilities	(8,594)	(8,754)
Interest paid	(2,272)	(3,963)
Dividend paid (note 15)	(5,120)	(12,800)
NET CASH USED IN FINANCING ACTIVITIES	(14,419)	(68,484)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,384	(30,344)
Cash and cash equivalents at the beginning of the year	156,789	185,140
Effect of foreign exchange rate changes	1,710	1,993
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	160,883	156,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

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

The Company’s immediate and ultimate holding company is Manford Investment Holdings Limited, a company incorporated on 24 October 2017 in the British Virgin Islands (“BVI”) under the laws of BVI with limited liability. The addresses of the registered office and principle place of business of the Company are disclosed in the corporate information section to the annual report.

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

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

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT YEAR

The outbreak of 2019 Novel Coronavirus (“COVID-19”) and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, and business environment and directly and indirectly affect the operations of the Group. The Group temporarily suspended its manufacturing activities from end of January 2020 to mid of February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. As such, the financial position and performance of the Group were affected in different aspects, including reduction in revenue and decrease in gross profit as a result of fixed production overheads during the close-down period. To overcome the negative impact arising from the pandemic, the People’s Republic of China (“PRC”) and Hong Kong governments have announced certain financial measures and supports for corporates. Accordingly, the Group received government grants in respect of COVID-19-related subsidies during the current year, as disclosed in the relevant notes.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendment to HKFRS 16	COVID-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

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

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

⁵ Effective for annual periods beginning on or after 1 January 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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

Except for the amendments to HKFRSs and the revised Conceptual Framework for Financial Reporting mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group’s outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group’s liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

Amendments to HKAS 16 *Property, Plant and Equipment* — *Proceeds before Intended Use*

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items is measured in accordance with HKAS 2 *Inventories*.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* (“HKFRS 16”), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted price (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investment in a subsidiary

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

Goodwill

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

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

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

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

Investment in a joint venture

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investment in a joint venture *(Continued)*

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

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

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

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

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

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

The lease payments include:

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

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use asset) whenever the lease term has changed or there is a change in assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease modifications

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement monetary items and retranslation of monetary items are recognised in profit or loss in the period in which they arise.

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

Exchange differences relating to the retranslation of the Group's net assets in US\$ to the Group's presentation currency (i.e. HK\$) are recognised directly in other comprehensive income and accumulated in the translation reserve, if any. Such exchange differences accumulated in the translation reserve are not reclassified to profit or loss subsequently.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Retirement benefit costs

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

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Share option granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes other than plant and machinery under construction as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Plant and machinery in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

Ownership interests in leasehold land and building (Continued)

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

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

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

In testing a cash-generating unit for impairment, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Inventories

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

Financial instruments

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Amortised cost and interest income

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

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, structured bank deposits, bank balances and cash which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk

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

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increase significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of non-current assets of the cash-generating unit

Property, plant and equipment, right-of-use assets, other intangible assets and goodwill are stated at costs less accumulated depreciation, amortisation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rate, revenue growth rate or the expected gross profit margin in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the revenue growth rate, discount rate and the expected gross profit margin are subject to greater uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets.

The Group is principally engaged in the manufacturing and trading of denim fabric, which is considered as one cash-generating unit (the "Denim Fabric CGU") to which the Group's goodwill and other non-current assets, other than interest in a joint venture and deferred tax assets, have been allocated for impairment test. The total non-current assets allocated to the Denim Fabric CGU amounted to HK\$142,890,000 (2019: HK\$148,423,000). Details of impairment assessment are disclosed in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated allowance for raw materials

The Group regularly reviews whether there are any indications of write-down of inventories, including raw materials, by taking into account the ageing of inventories, current market demand and future sales plan. The Group writes down the value of raw materials if the carrying amount of the raw materials is higher than its net realisable value. The net realisable value of raw materials has been determined based on the estimated selling price for raw materials less costs necessary to make the sale.

As at 31 December 2020, the carrying amount of raw materials was HK\$51,396,000 (2019: HK\$76,537,000) net of write-down of HK\$500,000 (2019: nil).

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Types of goods or services		
Sales of denim fabrics		
Stretchable blended denim fabrics	231,428	430,610
Stretchable cotton denim fabrics	14,965	53,780
Non-stretchable denim fabrics	8,742	11,509
Others (note)	308	10,358
Total	255,443	506,257

Note:

Others mainly include revenue from sales of yarns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

5. REVENUE (Continued)

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

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Timing of revenue recognition		
At a point in time	255,443	506,257

Performance obligations for contracts with customers

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

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

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

6. OPERATING SEGMENTS

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

Geographical information

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

6. OPERATING SEGMENTS *(Continued)*

Geographical information *(Continued)*

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
The PRC	73,432	123,216
Vietnam	56,496	71,765
Bangladesh	40,775	131,313
Hong Kong	33,249	115,602
Taiwan	30,632	17,230
Jordan	5,754	12,440
Macao	4,976	11,857
Indonesia	4,702	3,214
Pakistan	1,104	14,450
Other countries and regions	4,323	5,170
Total	255,443	506,257

Information about major customers

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

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Customer A	46,546	65,450
Customer B	37,282	N/A (note)
Customer C	30,632	N/A (note)
Customer D	N/A (note)	70,084

Note: The corresponding revenue did not contribute over 10% of the total revenue of the Group for the corresponding reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

7. OTHER INCOME

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Interest income from bank deposits	1,379	2,350
Services fee income (note i)	5,602	6,761
Storage income	360	405
Government grants (note ii)	2,878	562
Sample charge income	996	–
	11,215	10,078

Notes:

- (i) Service fee income mainly includes income from provision of management service to a joint venture including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK\$450,000 (2019: HK\$450,000).
- (ii) During the current year, the Group recognised government grants of HK\$2,484,000 in respect of COVID-19 related conditional subsidies in respect of Employment Support Scheme provided by the Hong Kong government in which, the Group has fulfilled the requirements of the subsidies. Other government grants represent unconditional incentives from the PRC government during the current and prior years.

8. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Gain on disposal of property, plant and equipment	196	1,272
Net foreign exchange gain	2,097	2,615
Others	(228)	(338)
	2,065	3,549

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Impairment losses recognised (reversed) on:		
— Trade and bills receivables	84	(272)

Details of impairment assessment for the years ended 31 December 2020 and 2019 are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

10. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	1,997	3,420
Interest expenses on lease liabilities	275	543
	2,272	3,963

11. (LOSS) PROFIT BEFORE TAX

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

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Directors' remuneration (note 13(a)):		
— Emoluments, salaries and other benefits	15,494	17,526
— Retirement benefit scheme contributions	36	36
	15,530	17,562
Other staff salaries and allowances	34,301	47,007
Retirement benefit scheme contributions, excluding those of directors	711	3,921
	50,542	68,490
Total employee benefits expenses	50,542	68,490
Capitalised as cost of inventories manufactured	(13,321)	(19,308)
	37,221	49,182
Depreciation of property, plant and equipment	12,161	11,745
Depreciation of right-of-use assets	8,236	8,591
Amortisation of other intangible assets	492	514
	20,889	20,850
Capitalised as cost of inventories manufactured	(9,800)	(9,770)
	11,089	11,080
Auditor's remuneration	2,372	2,045
Cost of inventories recognised as an expense	230,693	403,587
Write-down of inventories	950	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

12. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Current tax:		
— Hong Kong profits tax	—	838
— PRC enterprise income tax	1,747	1,666
(Over) under provision in prior years		
— PRC enterprise income tax	156	91
— Hong Kong profits tax	(1,501)	247
	402	2,842
Deferred tax (note 22)	(2,024)	150
Total	(1,622)	2,992

Hong Kong

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

For the year ended 31 December 2019, the Hong Kong profits tax of the qualifying group entity was calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$ 2 million. There is no assessable profits in Hong Kong for the year ended 31 December 2020.

The PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the standard PRC Enterprise Income Tax rate ("PRC EIT rate") of the PRC subsidiaries is 25% (2019: 25%). As one of the PRC subsidiaries of the Group was qualified as "High-tech Enterprise" in 2020 in relation to their production activities, this PRC subsidiary was subject to a preferential PRC EIT rate of 15% for three years starting from 1 January 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

12. INCOME TAX (CREDIT) EXPENSE (Continued)

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

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
(Loss) profit before tax	(42,654)	8,260
Tax at Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	(7,038)	1,363
Tax effect of expenses not deductible for tax purposes	352	798
Tax effect of share of results of a joint venture	(5)	15
Tax effect of income not taxable for tax purposes	(1,075)	(482)
Tax effect of tax losses not recognised	3,958	337
(Over) under provision in prior years	(1,345)	338
Effect of different tax rates of subsidiaries operating in the PRC	694	788
Income tax at concessionary rate	(1,322)	(165)
Others	4,159	–
	(1,622)	2,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

(a) Directors and chief executive's emoluments

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

	Fees HK\$'000	Salaries and other allowances HK\$'000	Bonus HK\$'000	Retirement benefit scheme contributions HK\$'000	Other benefit HK\$'000 (note)	Total HK\$'000
For the year ended 31 December 2020						
<i>Executive directors</i>						
Mr. TH Tung	-	5,200	-	-	-	5,200
Mr. Stephen Tung	-	4,030	-	18	-	4,048
Mr. Stanley Tung	-	3,900	-	18	1,644	5,562
<i>Independent non-executive directors</i>						
Mr. Tsang Ling Biu Gilbert	360	-	-	-	-	360
Mr. Cheung Che Kit Richard	180	-	-	-	-	180
Mr. Leung Wang Ching Clarence, J.P.	180	-	-	-	-	180
	720	13,130	-	36	1,644	15,530
For the year ended 31 December 2019						
<i>Executive directors</i>						
Mr. TH Tung	-	5,200	800	-	-	6,000
Mr. Stephen Tung	-	4,030	620	18	-	4,668
Mr. Stanley Tung	-	3,900	600	18	1,656	6,174
<i>Independent non-executive directors</i>						
Mr. Tsang Ling Biu Gilbert	360	-	-	-	-	360
Mr. Cheung Che Kit Richard	180	-	-	-	-	180
Mr. Leung Wang Ching Clarence, J.P.	180	-	-	-	-	180
	720	13,130	2,020	36	1,656	17,562

Note: The Group has been providing accommodation, which is leased from third party, to Mr. Stanley Tung for use by his and his family members at no charge. The estimated money value of the benefit in kind is approximately HK\$1,644,000 (2019: HK\$1,656,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

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

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

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

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

(b) Employees' emoluments

The five highest paid individuals of the Company included three (2019: three) directors of the Company for the year ended 31 December 2020. The emoluments of the remaining two (2019: two) individuals for the year are as follows:

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Salaries and other benefits	1,624	1,508
Bonus	–	536
Retirement benefit scheme contributions	36	36
	1,660	2,080

The emoluments of these employees are within the following bands:

	Year ended 31 December	
	2020	2019
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	–	1
	2	2

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

14. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the years ended 31 December 2020 and 2019 is based on the following data:

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
(Loss) earnings for the purpose of basic (loss) earnings per share	(41,032)	5,268

	Year ended 31 December	
	2020	2019
	'000	'000
Number of ordinary shares for the purpose of basic (loss) earnings per share	640,000	640,000

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential ordinary shares in issue for both 2020 and 2019.

15. DIVIDEND

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 final dividend (note)	5,120	–
2018 final dividend (note)	–	12,800
	5,120	12,800

Note: During the year, a final dividend of HK0.8 cents per share in respect of the year ended 31 December 2019 (2019: HK2 cents per share in respect of the year ended 31 December 2018) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current year amounted to HK\$5,120,000 (2019: HK\$12,800,000).

The directors of the Company have determined that no dividend will be paid in respect of the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

16. PROPERTY, PLANT AND EQUIPMENT

	Owned properties HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Other equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<i>Cost</i>							
At 1 January 2019	40,848	80,561	9,242	7,968	2,596	1,590	142,805
Additions	623	2,368	1,097	33	709	37,057	41,887
Transfer	-	1,842	-	-	-	(1,842)	-
Transfer from right-of-use assets	-	-	649	-	-	-	649
Disposals	-	(1,665)	(2,865)	-	(57)	-	(4,587)
At 31 December 2019	41,471	83,106	8,123	8,001	3,248	36,805	180,754
Additions	-	1,109	745	-	-	6,210	8,064
Transfer	-	3,008	-	-	-	(3,008)	-
Disposals/written off	-	(1,037)	(628)	-	(1,389)	-	(3,054)
At 31 December 2020	41,471	86,186	8,240	8,001	1,859	40,007	185,764
<i>Accumulated depreciation</i>							
At 1 January 2019	10,756	35,814	6,330	5,199	1,050	-	59,149
Charge for the year	1,563	6,572	1,305	1,362	943	-	11,745
Eliminated on disposals	-	(1,495)	(2,347)	-	(52)	-	(3,894)
At 31 December 2019	12,319	40,891	5,288	6,561	1,941	-	67,000
Charge for the year	1,626	8,087	1,134	541	773	-	12,161
Eliminated on disposals/ written off	-	(1,012)	(628)	-	(1,133)	-	(2,773)
At 31 December 2020	13,945	47,966	5,794	7,102	1,581	-	76,388
<i>Carrying amount</i>							
At 31 December 2019	29,152	42,215	2,835	1,440	1,307	36,805	113,754
At 31 December 2020	27,526	38,220	2,446	899	278	40,007	109,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

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

Plant and machinery	3–10 years
Motor vehicles	5–10 years
Furniture and fixtures	5 years
Other equipment	3–5 years

Impairment assessment

As a result of changes in the current global economic environment under the COVID-19 pandemic, the Group is experiencing negative business conditions, including decrease and delay in sales orders, indicating that the Group's non-current assets, excluding interest in a joint venture and deferred tax assets, may be impaired. The Group estimates the recoverable amount of the Denim Fabric CGU, to which the above assets belong, in order to determine the extent of the impairment loss, if any.

The recoverable amount of the Denim Fabric CGU has been determined by reference to a value in use calculation (the "VIU Calculation") performed by an independent qualified professional valuer not connected to the Group. The VIU Calculation is based on a cash flow projection established on the financial budget approved by the management of the Group covering the following five years, with a pre-tax discount rate of 14%. The revenue growth rate and the expected gross profit margin in the cash flow projection are determined by reference to the historical performance of the Denim Fabric CGU and management's expectation of the market development. The cash flow projection beyond the five-year period is extrapolated using a steady 2.5% growth rate. This growth rate is based on the expected long term nominal gross domestic product growth.

Based on the result of the VIU Calculation, management of the Group determined that the recoverable amount of the Denim Fabric CGU is higher than the aggregated carrying amount of the assets allocated, and accordingly, no impairment loss is recognised for the Denim Fabric CGU. The management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the Denim Fabric CGU to exceed its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS

The Group as lessee

	Leasehold lands HK\$'000	Buildings HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
As at 31 December 2020				
Carrying amount	17,786	6,646	3,764	28,196
As at 31 December 2019				
Carrying amount	18,433	5,314	5,112	28,859
For the year ended 31 December 2020				
Addition	–	7,573	–	7,573
Depreciation charge	647	6,241	1,348	8,236
For the year ended 31 December 2019				
Depreciation charge	648	6,387	1,556	8,591
Transfer to property, plant and equipment	–	–	649	649

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	166	308
Total cash outflow for leases	9,035	9,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS *(Continued)*

For both years, the Group leases leasehold lands, buildings and motor vehicles for its operations. Lease contracts are entered into for fixed term of 1 to 31 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for buildings. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense included in administrative expenses and disclosed in this note.

Details of impairment assessment of right-of-use assets (including director's quarter as corporate assets) which are included as assets in the Denim Fabric CGU, are set out in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

18. OTHER INTANGIBLE ASSETS

	Club memberships HK\$'000 note (i)	Software HK\$'000 note (ii)	Technical knowhow HK\$'000 note (iii)	Total HK\$'000
<i>Cost</i>				
At 1 January 2019, 31 December 2019 and 31 December 2020	1,683	429	3,675	5,787
<i>Accumulated amortisation</i>				
At 1 January 2019	–	96	551	647
Charge for the year	–	146	368	514
At 31 December 2019	–	242	919	1,161
Charge for the year	–	125	367	492
At 31 December 2020	–	367	1,286	1,653
<i>Carrying amount</i>				
At 31 December 2019	1,683	187	2,756	4,626
At 31 December 2020	1,683	62	2,389	4,134

Notes:

- (i) The club memberships represent corporate memberships with golf clubs which are lifetime memberships. As such, the golf club memberships are considered by the Group as having indefinite useful lives and will not be amortised. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.
- (ii) Software was purchased during the year ended 31 December 2018 and is amortised on a straight-line basis over 3 years.
- (iii) Technical knowhow was purchased through acquisition of subsidiaries in 2017 and is amortised on a straight-line basis over 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

19. GOODWILL

HK\$'000	
Cost and carrying amount	
At 1 January 2019, 31 December 2019 and 31 December 2020	1,184

Particulars regarding impairment assessment on goodwill, being part of the assets included in the Denim Fabric CGU, are disclosed in note 16.

20. INTEREST IN A JOINT VENTURE

	At 31 December 2020 HK\$'000	2019 HK\$'000
Cost of investment in a joint venture	3,978	3,978
Share of post-acquisition profits and other comprehensive income, net of dividends received	332	359
	4,310	4,337

As at 31 December 2019 and 2018, the Group had interest in the following joint venture:

Name of entity	Place of incorporation/ principal business	Proportion of nominal value of paid up capital		Proportion of voting owner held		Principal activities
		2020 %	2019 %	2020 %	2019 %	
Kurabo Denim International Limited ("KDIL")	Hong Kong	51	51	50	50	Trading and provision of technical support

21. STRUCTURED BANK DEPOSITS

On 23 September 2016, H.W. Textiles Company Limited ("HWT"), a subsidiary of the Group, entered into a subscription agreement with Hong Kong and Shanghai Banking Corporation Limited, to subscribe for a note in the principal amount of US\$1,000,000 (equivalent to HK\$7,800,000), with interest payable quarterly in arrears at a variable-interest rate linked to London Interbank Offered Rate per annum. The note matured on 23 September 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

22. DEFERRED TAX ASSETS/LIABILITIES

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

	Tax losses HK\$'000	Temporary difference on write-down of inventories HK\$'000	ECL provision HK\$'000	Temporary difference on leasehold lands HK\$'000 (note)	Temporary difference on technical knowhow HK\$'000 (note)	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2019	-	-	133	(3,874)	(781)	(2,323)	(6,845)
(Charge) credit to profit or loss	-	-	(45)	131	92	(328)	(150)
At 31 December 2019	-	-	88	(3,743)	(689)	(2,651)	(6,995)
Credit (charge) to profit or loss	1,700	156	14	131	92	(69)	2,024
At 31 December 2020	1,700	156	102	(3,612)	(597)	(2,720)	(4,971)

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

At the end of the reporting period, the Group has unused tax losses of HK\$45,383,000 (2019: HK\$9,123,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of HK\$12,272,000 (2019: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$33,111,000 (2019: HK\$9,123,000) due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

22. DEFERRED TAX ASSETS/LIABILITIES (Continued)

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

	2020 HK\$'000	2019 HK\$'000
Deferred tax assets	1,958	88
Deferred tax liabilities	(6,929)	(7,083)
	(4,971)	(6,995)

Under the EIT Law of PRC, the dividends declared by PRC subsidiaries is subject to PRC withholding tax at a tax rate of 10%. For those PRC subsidiaries which the investors are non-resident enterprises, withholding tax is at a preferential tax rate of 5%. As at 31 December 2020, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK\$46,009,000 (equivalent to RMB43,463,000) (2019: HK\$41,561,000 (equivalent to RMB37,327,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

23. INVENTORIES

	At 31 December 2020 HK\$'000	2019 HK\$'000
Raw materials	51,396	76,537
Work in progress	30,332	38,268
Finished goods	63,482	87,253
	145,210	202,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

24. TRADE AND OTHER RECEIVABLES

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Trade and bills receivables	29,108	33,303
Less: Allowance for credit loss	(617)	(533)
	28,491	32,770
Prepayments	3,687	3,590
Value-added tax recoverable	23,598	28,917
Utility and rental deposits	1,473	1,436
Others	843	2,115
	58,092	68,828

As at 1 January 2019, trade receivables from contracts with customers carried a gross amount of HK\$23,072,000.

As at 31 December 2020, trade receivables from contracts with customers carried a gross amount of HK\$12,688,000 (2019: HK\$20,346,000).

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

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Within 30 days	20,618	23,004
31 to 60 days	5,438	4,408
61 to 120 days	2,701	5,233
121 to 180 days	–	172
181 to 365 days	52	69
More than 365 days	299	417
	29,108	33,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

24. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2020, total bills receivable with gross amount of HK\$16,420,000 (2019: HK\$12,957,000) are held by the Group.

All bills receivable by the Group are with a maturity period of less than one year.

As at 31 December 2020, included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of HK\$9,479,000 (2019: HK\$7,948,000) which are past due as at the reporting date. Out of the past due balances, HK\$520,000 (2019: HK\$584,000) has been past due 90 days or more and is considered as in default. The Group does not held any collecteral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2020 and 2019 are set out in note 36.

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

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	4,806	5,131
RMB	10,640	3,394
	15,446	8,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at variable rates which range from nil to 0.46% per annum (2019: nil to 0.35% per annum) as at 31 December 2020.

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

	At 31 December 2020 HK\$'000	2019 HK\$'000
HK\$	63,039	78,335
RMB	26,252	7,152
	89,291	85,487

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

26. TRADE AND OTHER PAYABLES

	At 31 December 2020 HK\$'000	2019 HK\$'000
Trade and bills payables	41,798	62,176
Deposits received	3,980	7,800
Payroll payables	5,615	6,271
Others	2,908	4,347
	54,301	80,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

26. TRADE AND OTHER PAYABLES (Continued)

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

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Within 30 days	19,665	52,059
31 to 60 days	14,415	6,502
61 to 180 days	7,718	3,615
	41,798	62,176

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

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

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	12,741	31,398
RMB	13,640	6,858
	26,381	38,256

27. AMOUNT DUE TO A JOINT VENTURE

The amount due to a joint venture as at 31 December 2020 and 2019 was arising from management service fee, which was unsecured, interest free and repayable on demand. The ageing of the outstanding amounts as at 31 December 2020 and 2019 was within 30 days. The amount due to a joint venture is denominated in HK\$ which is other than the functional currency of the relevant group entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

28. LEASE LIABILITIES

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Lease liabilities payable:		
Within one year	4,462	7,631
Within a period of more than one year but not more than two years	3,231	1,083
	7,693	8,714
Less: Amount due for settlement with 12 months shown under current liabilities	(4,462)	(7,631)
Amount due for settlement after 12 months shown under non-current liabilities	3,231	1,083

The weighted average incremental borrowing rates applied to leases liabilities range from 3.45% to 4.85% (2019: 3.82% to 4.85%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
HK\$	5,791	8,288
RMB	1,902	426
	7,693	8,714

29. BANK BORROWINGS

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
The carrying amounts of the unsecured bank borrowings are repayable (note i):		
— within one year	56,717	48,043
— within a period of more than one year but not exceeding two years	8,203	11,858
— within a period of more than two years but not exceeding five years	1,630	5,082
Amounts shown under current liabilities (note ii)	66,550	64,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

29. BANK BORROWINGS *(Continued)*

Notes:

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

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

	At 31 December 2020	2019
Effective interest rates — Variable-rate borrowings	1.35% to 4.19%	2.23% to 4.10%

All the bank borrowings are denominated in HK\$ which is other than the functional currencies of the relevant group entities.

30. CONTRACT LIABILITIES

	At 31 December 2020 HK\$'000	2019 HK\$'000
Sales of denim fabrics	562	1,968

As at 1 January 2019, contract liabilities amounted to HK\$1,029,000.

The balances of contract liabilities at 1 January 2019 and 31 December 2019 have been recognised as revenue during the years ended 31 December 2019 and 2020 respectively. No revenue recognised in the current year relates to performance obligations that were satisfied in prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

31. SHARE CAPITAL

	Number of Shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 1 January 2019, 31 December 2019 and 31 December 2020	1,000,000,000	10,000
Issued and fully paid:		
As at 1 January 2019, 31 December 2019 and 31 December 2020	640,000,000	6,400

32. SHARE-BASED PAYMENT TRANSACTIONS

On 19 June 2018 (the "Adoption Date"), the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentive or reward to any employees, executives or officers, directors of the Group or any invested entity and any shareholder, supplier, customer, consultant or adviser of any member of the Group or any invested entity, who have contributed or will contribute to the growth and development of the Group ("Eligible Participants"). The Share Option Scheme will remain in force for a period of ten years commencing after the Adoption Date.

Under the Share Option Scheme, HK\$1.00 is payable by the grantee to the Company on acceptance of the share option offer and an offer must be accepted on or before a date as specified in writing, being a date not later than 21 days after the offer date. The directors of the Company may at their discretion determine the specific exercise period which should expire in any event no later than the last day of the ten year period after the date of grant of the share options. The exercise price is determined by the directors of the Company and will not be less than the highest of: (a) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Company's shares on the offer date; (b) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The maximum number of shares which may initially be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes adopted by the Company must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Company's shares in issue at the time dealings in the Company's shares first commence on the Stock Exchange, i.e. 640,000,000 shares.

No share options were granted since the Adoption Date to 31 December 2020.

33. RETIREMENT BENEFIT SCHEMES

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

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

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

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the year, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represents contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. During the current year, the PRC government waived certain of the employer's obligation on social security contributions. The retirement benefits scheme contribution expense recognised by the Group amounted to HK\$747,000 (2019: HK\$3,957,000) during the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

34. RELATED PARTY TRANSACTIONS

(a) Related party balances and transactions

Other than the outstanding balance with the joint venture disclosed in the consolidated statement of financial position and note 27, the Group has the following transactions and balances with its related parties during the current and prior years:

Relationships	Nature of balances/transactions	2020 HK\$'000	2019 HK\$'000
Joint venture			
KDIL	Service fee income	5,400	5,400
	Management service fee expense	4,320	4,320
	Royalty fee expense	2,073	3,660
Related parties			
Star Alliance Holdings Limited (notes i and ii)	Interest expense on lease liabilities	92	197
	Expenses relating to short-term leases	–	16
	Lease liabilities	1,648	3,357

Notes:

- (i) As at 31 December 2020 and 2019, Star Alliance Holdings Limited is owned as to 25% each by Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung and Ms. Lau Chung Chau (spouse of Mr. TH Tung and mother of Mr. Stephen Tung and Mr. Stanley Tung). They are also controlling shareholders of the Company.
- (ii) During the year ended 31 December 2020, the Group entered into several new lease agreements with Star Alliance Holdings Limited for the use of office in Hong Kong for 1 to 2 years (2019: 1 to 2 years). Except for short-term lease and low value leases in which the Group applied recognition exemption, the Group has recognised, in current year, an addition of right-of-use assets and lease liabilities of HK\$1,648,000 (2019: HK\$3,357,000) and HK\$1,648,000 (2019: HK\$3,357,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of directors and key management personnel

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Salaries and other allowances	16,031	19,020
Retirement benefit scheme contributions	72	78
Other benefits (note)	1,644	1,656
	17,747	20,754

Note:

Other benefit represents rentals for directors' quarters. During the year ended 31 December 2020, depreciation of right-of-use assets in relation to these non-monetary benefits amounted to HK\$1,603,000 (2019: HK\$1,614,000).

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

35. CAPITAL RISK MANAGEMENT

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

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

The management of the Group review the capital structure regularly. As part of this review, the management of the Group consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Financial assets:		
Financial assets at amortised cost	191,690	200,910
Financial liabilities:		
Financial liabilities at amortised cost	115,516	139,398
Lease liabilities	7,693	8,714

(b) Financial risk management objectives and policies

The Group's financial instruments mainly include structured bank deposits, trade and other receivables, bank balances and cash, trade and other payables, amount due to a joint venture, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in respective notes.

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

Market risk

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

(i) Currency risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

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

	RMB	
	Assets HK\$'000	Liabilities HK\$'000
As at 31 December 2020	36,892	15,542
As at 31 December 2019	10,546	7,284

	HK\$	
	Assets HK\$'000	Liabilities HK\$'000
As at 31 December 2020	67,845	85,219
As at 31 December 2019	83,466	104,791

Sensitivity analysis

The management of the Group considers that the exposure of US\$ against HK\$ is limited as HK\$ is pegged to US\$ and the Group is mainly exposed to the currency risk of RMB against US\$ during the year. The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against US\$. 5% (2019: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the year end for a 5% (2019: 5%) change in foreign currency rates. A negative number below indicates an increase in post-tax loss/ a decrease in post-tax profit where RMB weakened 5% (2019: 5%) against US\$. For a 5% (2019: 5%) strengthening of RMB against US\$, there would be an equal and opposite impact on the profit or loss.

	At 31 December	
	2020 HK\$'000	2019 HK\$'000
Increase in post-tax loss/decrease in post-tax profit for the year	(908)	(122)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis points (2019: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for the each of the years ended 31 December 2020 and 2019.

If interest rates had been 50 basis points (2019: 50 basis points) higher and all other variables were held constant, the Group's post-tax results for the years ended 31 December 2020 and 2019 would have decreased by:

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Increase in post-tax loss/decrease in post-tax profit for the year	(278)	(271)

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

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

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment

As at 31 December 2020 and 2019, the carrying amounts of the financial assets as stated in the consolidated statement of financial position best represent the Group's maximum exposure to credit risk, which will cause financial loss to the Group due to failure to discharge obligations by the counterparties. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that settlement of most of trade receivables are backed by letter of credit issued by reputable financial institutions.

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

The Group has concentration of credit risks as 23.87% and 26.02% of the total trade receivables was due from the Group's largest customer, and 71.25% and 72.82% of the total trade receivables was due from the Group's five largest customers, as at 31 December 2020 and 2019, respectively.

Trade and bills receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer credit quality and define credit limits by customers. Credit limits contributed to customers and credit term granted to customer are received regularly. The team also develops/maintains the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group only accepts bills issued or guaranteed by reputable Hong Kong banks if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

Customer grouping	Internal credit rating	Default rate	Gross carrying amounts HK\$'000	Impairment loss allowance HK\$'000	Net amounts HK\$'000
As at 31 December 2020					
Customer Group A	Very low risk	0.14%	1,308	2	1,306
Customer Group B	Low risk	2.8%	1,931	54	1,877
Customer Group C	Fair risk	32.8%	337	111	226
Customer Group D	Substantial risk	73.89%	255	188	67
Total			3,831	355	3,476
As at 31 December 2019					
Customer Group A	Very low risk	0.12%	4,125	5	4,120
Customer Group B	Low risk	2.27%	2,220	50	2,170
Customer Group C	Fair risk	22.76%	195	44	151
Customer Group D	Substantial risk	51.40%	494	254	240
Total			7,034	353	6,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

In addition, as at 31 December 2020, trade receivables with gross amount of HK\$8,857,000 (2019: HK\$13,312,000) are assessed individually and allowance for ECL of HK\$249,000 (2019: HK\$170,000) is recognised as a result. All these receivables are not past due.

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

Customer grouping	Internal credit rating	Default rate	Gross carrying amounts HK\$'000	Impairment loss allowance HK\$'000	Net amounts HK\$'000
As at 31 December 2020					
Customer Group A	Very low risk	0.081%	16,420	13	16,407
As at 31 December 2019					
Customer Group A	Very low risk	0.07%	12,957	10	12,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
As at 1 January 2019	462	320	782
Changes due to financial instruments recognised as at 1 January 2019:			
— Impairment losses recognised	—	34	34
— Impairment losses reversed	(462)	(195)	(657)
New financial assets originated	269	95	364
As at 31 December 2019	269	254	523
Changes due to financial instruments recognised as at 1 January 2020			
— Transfer to credit-impaired	(15)	15	—
— Impairment losses recognised	—	52	52
— Impairment losses reversed	(254)	(160)	(414)
New financial assets originated	415	28	443
As at 31 December 2020	415	189	604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

	12m ECL HK\$'000
As at 1 January 2019	23
Changes due to financial instruments recognised as at 1 January 2019:	
— Impairment losses reversed	(23)
New financial assets originated	10
<hr/>	
As at 31 December 2019	10
<hr/>	
Changes due to financial instruments recognised as at 1 January 2020:	
— Impairment losses reversed	(10)
New financial assets originated	13
<hr/>	
As at 31 December 2020	13

Other financial assets subject to ECL assessment

For other receivables with gross carrying amount of HK\$2,316,000 (2019: HK\$3,551,000), the Group has applied the general approach in HKFRS 9 to measure the loss allowance approximate to such at 12m ECL, since the directors of the Company did not expect any significant increase in credit risk. The ECL on other receivables are assessed collectively, which is based on the counter parties' past due history and current past due exposure and taking into consideration forward-looking information that is reasonable and supportable available without undue cost or effort. The directors of the Company considered the credit risk of these items is insignificant and no impairment was provided on these items at the year end.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 2 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
As at 31 December 2020						
Trade and other payables	–	14,193	34,636	–	48,829	48,829
Amount due to a joint venture	–	137	–	–	137	137
Bank borrowings — variable rate	2.5	66,550	–	–	66,550	66,550
Leases liabilities	4.31	1,487	3,181	3,231	7,899	7,693
		82,367	37,817	3,231	123,415	123,209
As at 31 December 2019						
Trade and other payables	–	22,234	52,059	–	74,293	74,293
Amount due to a joint venture	–	122	–	–	122	122
Bank borrowings — variable rate	3.29	64,983	–	–	64,983	64,983
Leases liabilities	4.41	2,229	5,616	1,096	8,941	8,714
		89,568	57,675	1,096	148,339	148,112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 month" time band in the above maturity analysis. As at 31 December 2020, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$66,550,000 (2019: HK\$64,983,000). Taking into account the Group's financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank borrowings will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements and accordingly, the aggregate principal and interest cash outflows will amount to HK\$67,028,000 (2019: HK\$66,603,000), details of which are set out in the table below:

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

	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1–2 years HK\$'000	2–5 years HK\$'000	Total undiscounted cash outflows HK\$'000	Carrying amount HK\$'000
31 December 2020	47,462	9,639	8,292	1,635	67,028	66,550
31 December 2019	30,025	19,169	12,250	5,159	66,603	64,983

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

(c) Fair value measurements of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

37. PLEDGED OF OR RESTRICTIONS ON ASSETS

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

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Right-of-use assets	3,764	5,112

As at 31 December 2020 and 2019, the pledged amounts of right-of-use assets represent the carrying amount of motor vehicles.

Restrictions on assets

In addition, lease liabilities of HK\$1,083,000 (2019: HK\$3,352,000) are recognised with related right-of-use assets of HK\$3,764,000 (2019: HK\$5,112,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	1 January 2020 HK\$'000	Financing cash flows HK\$'000	New lease entered HK\$'000	Dividend declared HK\$'000	Other changes HK\$'000 (note i)	31 December 2020 HK\$'000
Bank borrowings (note ii)	64,983	(430)	-	-	1,997	66,550
Lease liabilities (note iii)	8,714	(8,869)	7,573	-	275	7,693
Dividend paid	-	(5,120)	-	5,120	-	-
Total	73,697	(14,419)	7,573	5,120	2,272	74,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

	1 January 2019 HK\$'000	Financing cash flows HK\$'000	Dividend declared HK\$'000	Other changes HK\$'000 (note i)	31 December 2019 HK\$'000
Bank borrowings (note ii)	107,950	(46,387)	–	3,420	64,983
Lease liabilities (note iii)	17,468	(9,297)	–	543	8,714
Dividend paid	–	(12,800)	12,800	–	–
Total	125,418	(68,484)	12,800	3,963	73,697

Notes:

- (i) Other changes represent the interest expenses of bank borrowings and lease liabilities recognised during both years.
- (ii) The cash flows from bank borrowings comprise the net amount of new borrowings raised and repayment of principal and interest of bank borrowings paid during the year.
- (iii) The cash flows of lease liabilities represent repayments of principal and interest during the year.

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, the Group entered into several new lease agreements for the use of offices ranged from 1 to 2 years (2019: 1 to 2 years). On the lease commencement, the Group recognised HK\$7,573,000 (2019: nil) of right-of-use assets and HK\$7,573,000 (2019: nil) of lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At 31 December	
	2020	2019
	HK\$'000	HK\$'000
Non-current assets		
Interest in a subsidiary	4	4
Amounts due from subsidiaries	117,021	122,853
	117,025	122,857
Current assets		
Prepayment, deposits and other receivables	217	229
Bank balances and cash	10,383	10,968
	10,600	11,197
Current liability		
Accruals and other payables	8	10
Net current assets	10,592	11,187
Net assets	127,617	134,044
Capital and reserves		
Share capital	6,400	6,400
Reserves	121,217	127,644
Total equity	127,617	134,044

Movements in the Company's reserves

	Share premium	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2019	159,906	(16,912)	142,994
Loss and total comprehensive expense for the year	–	(2,550)	(2,550)
Dividend recognised as distribution (note 15)	–	(12,800)	(12,800)
Balance at 31 December 2019	159,906	(32,262)	127,644
Loss and total comprehensive expense for the year	–	(1,307)	(1,307)
Dividend recognised as distribution (note 15)	–	(5,120)	(5,120)
Balance at 31 December 2020	159,906	(38,689)	121,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

Details of the principal subsidiaries held by the Company as at 31 December 2020 and 2019 are set out below.

Name of subsidiary	Principal activity	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Company	
				2020 %	2019 %
<i>Indirectly:</i>					
HWT	Design, trading of denim fabric and investment holding	Hong Kong	HK\$1,500,000	100.00	100.00
Kingstead Industrial Limited	Trading of denim fabric and investment holding	Hong Kong	HK\$100,000	100.00	100.00
Zhongshan Hing Tak Weaving and Dyeing Limited 中山興德紡織漿染有限公司*	Manufacturing and trading denim fabric	The PRC	HK\$25,000,000	100.00	100.00
Zhongshan Hing Shing Finishing and Dyeing Limited 中山市興盛漿染整理有限公司*	Provision of sizing, dyeing and finishing services on denim fabric	The PRC	HK\$35,000,000	100.00	100.00

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

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

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

42. COMPARATIVE FIGURES

In order to conform with the current year's presentation, certain tax balances for the year ended 31 December 2019 have been re-presented as tax recoverable.

FINANCIAL SUMMARY

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

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Results					
Revenue	255,443	506,257	640,724	648,219	475,039
(Loss) profit before tax	(42,654)	8,260	91,930	151,695	108,956
Income tax credit (expense)	1,622	(2,992)	(19,129)	(25,217)	(17,106)
(Loss) profit and total comprehensive income for the year attributable to owners of the Company	(41,032)	5,268	72,801	126,478	91,850
Assets					
Non-current assets	149,158	152,848	127,911	150,381	346,221
Current assets	369,514	440,529	543,225	453,666	331,668
Total assets	518,672	593,377	671,136	604,047	677,889
Liabilities					
Non-current liabilities	(10,160)	(8,166)	(10,330)	(8,319)	(2,131)
Current liabilities	(133,171)	(163,718)	(231,781)	(305,241)	(221,036)
Total liabilities	(143,331)	(171,884)	(242,111)	(313,560)	(223,167)
Capital and reserves					
Equity attributable to owners of the Company and total equity	375,341	421,493	429,025	290,487	454,722
Current ratio (current assets/current liabilities)	2.77	2.69	2.34	1.49	1.50
Gearing ratio (total bank borrowings, lease liabilities, obligations under finance leases/total equity)	19.8%	17.5%	26.5%	28.6%	8.5%

The results of the Group for the financial year ended 31 December 2020 and its assets and liabilities as at 31 December 2020 are set forth on pages 40 to 112, and are presented on the basis set out in note 3 to the consolidated financial statements.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Cheung Ka Chun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Tung Wai Ting Stephen
Mr. Cheung Ka Chun

REGISTERED OFFICE

PO Box 309, Uglan House
Grand Cayman KY1-1104
Cayman Islands

HEADQUARTERS IN THE PRC

Gaoping Industrial Area
Zhongshan, Guangdong Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A6, 31th Floor, TML Tower
No. 3 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35th Floor, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISORS

P.C. Woo & Co.
Room 1225
12th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

STOCK CODE

01968

COMPANY WEBSITE

<http://www.hwtextiles.com.hk>

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation
1 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall, Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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