ST International Holdings Company Limited
智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8521

ANNUAL REPORT
2018

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

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the "**Directors**") of ST International Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company.*

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin
Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

AUDIT COMMITTEE

Mr. Ng Wing Heng Henry *(Chairman)*
Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat

REMUNERATION COMMITTEE

Mr. Fong Kin Tat *(Chairman)*
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

NOMINATION COMMITTEE

Mr. Sze Irons *BBS JP (Chairman)*
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

COMPLIANCE OFFICER

Mr. Hung Yuk Miu

COMPANY SECRETARY

Mr. Hung Yuk Miu (HKICPA)

AUTHORISED REPRESENTATIVES

Mr. Wong Kai Hung Kelvin
Mr. Hung Yuk Miu

REGISTERED OFFICE

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HONG KONG BRANCH SHARE REGISTRAR

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AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants
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33 Hysan Avenue Causeway Bay,
Hong Kong

LEGAL ADVISOR

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Admiralty,
Hong Kong

COMPLIANCE ADVISER

Sunfund Capital Limited
Unit 2620, 26/F Tower 1,
Admiralty Centre,
18 Harcourt Road,
Admiralty, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
HSBC Main Building,
1 Queen's Road,
Central, Hong Kong

Industrial and Commercial Bank of China
(Asia) Limited
1/F, 9 Queen's Road Central,
Hong Kong

China Construction Bank
Shop A1-001 to A1-003,
First International H5 Block Area A shops,
New Town Center District,
Nancheng District, Dongguan,
Guangdong Province, PRC

COMPANY'S WEBSITE

www.smart-team.cn

STOCK CODE

8521

Financial Summary

For the four years ended 31 December 2015, 2016, 2017 and 2018

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**173,461**	125,275	80,250	64,104
Cost of sales	**(109,659)**	(80,379)	(45,034)	(40,934)
Gross profit	**63,802**	44,896	35,216	23,170
Other income	**1,570**	1,734	502	1,846
Selling and distribution expenses	**(4,740)**	(2,931)	(3,380)	(2,502)
Administrative and other expenses	**(30,494)**	(17,714)	(9,828)	(8,482)
Impairment loss on trade receivables	**(98)**	–	–	–
Finance costs	**(343)**	(215)	(94)	–
Profit before tax	**29,697**	25,770	22,416	14,032
Income tax	**(5,530)**	(5,595)	(3,872)	(1,912)
Profit for the year	**24,167**	20,175	18,544	12,120

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES				
Non-current assets	**13,721**	3,780	2,840	3,097
Current assets	**151,418**	98,874	58,316	39,500
Non-current liabilities	**1,030**	1,070	105	171
Current liabilities	**27,214**	44,958	27,675	25,591
Net assets	**136,895**	56,626	33,376	16,835

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
CASH FLOWS				
Net cash generated from (used in) operating activities	**15,128**	(7,549)	8,501	12,945
Net cash used in investing activities	**(9,990)**	(1,013)	(3,316)	(1,779)
Net cash from (used in) financing activities	**54,229**	(5,711)	572	(10,277)
Net increase (decrease) in cash and cash equivalents	**59,367**	(14,273)	5,757	889
Cash and cash equivalents at beginning of the year	**3,119**	16,657	11,984	11,500
Effect of exchange rate changes	**(1,460)**	735	(1,084)	(405)
Cash and cash equivalents at end of the year	**61,026**	3,119	16,657	11,984

Chairman Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 ("**FY2018**").

With regards to our financial performance for FY2018 as compared with the year ended 31 December 2017 ("**FY2017**"), our revenue increased by approximately HK$48,186,000 or 38.5% from approximately HK$125,275,000 to approximately HK$173,461,000.

The profit for the year of the Company in FY2018 was approximately HK$24,167,000. This represents an increase of approximately HK$3,992,000 or 19.8% from the profit of approximately HK$20,175,000 in FY2017.

As reflected by the financial performance, the Group recorded a significant growth in FY2018. The growth was mainly due to increase in sales orders from existing major customers as well as the introduction of new customers during FY2018. The new functional knitted fabrics developed by the Group have also contributed to the increase in the Group's revenue during FY2018.

The Group is encountering rising costs of raw materials which may cause negative impact on the Group's gross profit margin for the coming year. Despite there are challenges in the future, the Group will strengthen its position in research and development of the new functional fabrics as well as expanding different markets and strengthening the marketing and sales efforts to attract new customers.

Looking ahead, the Group is positioned to capture the growing business opportunities in the functional fabrics market in the People's Republic of China (the "**PRC**") by continuing development of new functional fabrics and improving our quality requirement on the functional fabrics.

Finally, on behalf of the Board, I would like to once again express my sincere thanks to all business partners, customers and suppliers for their ongoing support, as well as our dedicated staff for their strong contributions throughout this challenging year.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 15 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in provision of functional knitted fabrics in the PRC. The products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. The Group continues to design functional knitted fabrics through its product innovation capabilities, source its raw materials comprising primarily synthetic fibres and yarns and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing, for its direct sales of functional knitted fabrics to the customers. With a view to diversifying the Group's source of revenue and creating cross-selling opportunity, the Group also engages in the sales of apparel to its customers which are lingerie and apparel brand owners.

The shares of the Company (the "**Shares**") were successfully listed (the "**Listing**") on GEM operated by the Stock Exchange ("**GEM**") on 16 May 2018 (the "**Listing Date**") by way of share offer (the "**Share Offer**").

The Listing is a significant milestone for the Company which not only enhanced our corporate image, but also provided capital for our expansion and helped us to establish better recognitions in the industry and to broaden our client base.

During FY2018, the Group has continued to grow its business through promoting existing functional knitted fabrics and developing new functional knitted fabrics. The Group has also continued to recruit new talented sales and marketing executives to develop new markets during FY2018.

OUTLOOK AND PROSPECTS

Looking ahead, the Group will continue to devote more resources towards the research and development of functional knitted fabrics as well as the dyeing methodology. The Group will focus on the following business strategies: (i) to strengthen the Group's market position in the PRC by improving its product offering; (ii) to strengthen the Group's marketing efforts; and (iii) to recruit talents to support the Group's future growth. Details of the business strategies have been disclosed in the prospectus of the Company dated 30 April 2018 (the "**Prospectus**").

FINANCIAL REVIEW

Revenue

The following table sets forth an analysis of our revenue by products during FY2018 and FY2017.

	2018 **HK$'000**	2017 HK$'000
Sales of functional knitted fabrics	**156,384**	110,961
Sales of apparel	**17,055**	12,760
Sales of other products	**22**	1,554
	173,461	125,275

The Group's revenue increased by approximately HK$48,186,000 or 38.5%, from approximately HK$125,275,000 for FY2017 to approximately HK$173,461,000 for FY2018. The increase was mainly due to the increase in revenue from sales of functional knitted fabrics which was resulted from the increase in sales orders from the existing major customers as well as the introduction of new customers during FY2018. The new functional knitted fabrics developed by the Group have also contributed to the increase in the Group's revenue during FY2018.

Gross profit and gross profit margin

Our gross profit increased by approximately HK$18,906,000, or 42.1% from approximately HK$44,896,000 for FY2017 to approximately HK$63,802,000 for FY2018. The increase was in line with the increase in revenue. Our gross profit margin slightly increased from 35.8% for FY2017 to 36.8% for FY2018.

Other income

Our other income mainly comprises of (i) bank interest income; (ii) government grants; and (iii) exchange gain.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately HK$1,809,000, or 61.7%, from approximately HK$2,931,000 for FY2017 to approximately HK$4,740,000 for FY2018 which was mainly due to increase in staff cost as the number of sales and marketing executives has been increased compared with FY2017.

FINANCIAL REVIEW *(Continued)*

Administrative and other expenses

The Group's administrative and other expenses increased by approximately HK$12,780,000, or 72.1%, from approximately HK$17,714,000 for FY2017 to approximately HK$30,494,000 for FY2018. The increase was mainly due to the combined effects of (i) the increase of the one-off listing expenses of approximately HK$4,155,000; (ii) the increase in staff costs; (iii) the increase in rental expenses and depreciation as a result of the expansion of our Dongguan headquarter; and (iv) the increase in consultancy and professional fees incurred for our compliance requirements after Listing.

Finance costs

Our finance costs increased by approximately HK$128,000 or 59.5% from approximately HK$215,000 for FY2017 to approximately HK$343,000 for FY2018. The increase was mainly due to the increase in average bank borrowings.

Taxation

For FY2018 and FY2017, our income tax expenses were approximately HK$5,530,000 and HK$5,595,000, respectively, and our effective tax rate (excluding the non-recurring listing expenses) for the same period was approximately 13.6% and 17.2%, respectively.

Profit for the year attributable to owners of the Company

As a result of the foregoing, the profit for the year attributable to owners of the Company increased from approximately HK$20,252,000 for FY2017 to approximately HK$24,281,000 for FY2018. Excluding the non-recurring listing expenses of approximately HK$10,856,000 and approximately HK$6,701,000 for FY2018 and FY2017, respectively, the Group has recorded profit attributable to owners of the Company, which increased by approximately HK$8,184,000 or 30.4% from approximately HK$26,953,000 for FY2017 to approximately HK$35,137,000 for FY2018.

Cash flows

The net cash generated from operating activities during FY2018 was about HK$15,128,000 while the net cash used in operating activities during FY2017 was about HK$7,549,000. The increase in cash generated was mainly due to increase in revenue and profit for the year.

The net cash used in investing activities in FY2018 was about HK$9,900,000 while the net cash used in investing activities in FY2017 was about HK$1,013,000. The increase was mainly due to the acquisition of plant and equipment of approximately HK$4,034,000.

The net cash from financing activities in FY2018 was about HK$54,229,000 while the net cash used in financing activities in FY2017 was about HK$5,711,000. The increase was mainly due to the proceeds from the Share Offer.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operation mainly through cash generated from our operating activities and also net proceeds from the Share Offer. As at 31 December 2018 and 2017, we had cash and cash equivalents of approximately HK$61,026,000 and HK$8,756,000 respectively.

As at 31 December 2018, the Group had no outstanding bank borrowing which was repayable within one year (2017: HK$8,637,000) and had outstanding bank borrowing of approximately HK$5,535,000 which was repayable on demand (2017: nil). As at 31 December 2018, the Group's borrowings were denominated in Renminbi ("**RMB**") (2017: denominated in Hong Kong Dollars).

The Group's gearing ratio, which is calculated based on the total debt (defined as the sum of bank borrowings and overdrafts as at the respective year end divided by total equity as at the respective year end) was approximately 4.0% and 15.3% as at 31 December 2018 and 2017 respectively.

Our liquidity position had been strengthened by combining the cash generated from operating activities and the net proceeds received from the Share Offer.

CAPITAL STRUCTURE

As at 31 December 2018, the capital structure of the Company comprised issued share capital and reserves.

COMMITMENTS

As at 31 December 2018, the Group has capital commitment of approximately HK$14,000,000 in respect of property and equipment contracted but not provided for.

SEGMENT INFORMATION

An analysis of the Group's revenue of customers is set out in note 7 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investment during FY2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and in the paragraph headed "Commitments" above, the Group does not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during FY2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group has no material contingent liabilities.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Our foreign exchange gains or losses mainly comprise of the transactional exchange difference primarily arising from settlement of our part of our trade payables denominated in United States Dollars and receipt of our trade receivables denominated in RMB.

The Group did not use any hedging contracts to engage in speculative activities during FY2018.

KEY RISKS AND UNCERTAINTIES

The Directors are aware that the Group is exposed to various types of risks, including operational risks and market risks. The Directors consider that the exposure to exchange rate fluctuation as explained above is one of the key risks and uncertainties the Group faces and the gross profit of the Group may be adversely affected.

CHARGES ON GROUP'S ASSETS

As at 31 December 2018, the Group's bank borrowings were secured by the pledged bank deposits as set out in notes 20 to the consolidated financial statements.

INFORMATION ON EMPLOYEES

As at 31 December 2018, the Group had 80 employees (31 December 2017: 96) and most of them were working in the Dongguan headquarters. We incurred staff costs inclusive of performance related bonus, bonus and directors' emoluments in the aggregate of approximately HK$14,271,000 and HK$10,703,000 for FY2018 and FY2017, respectively. We regularly review the performance of our employees and make reference to such performance reviews in our salary review and promotional appraisal in order to attract and retain talented employees. For our sale staffs, we offer a remuneration package comprising basic salary and performance–based bonus.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to 31 December 2018.

Business objectives up to 31 December 2018 as set out in the Prospectus	Actual implementation plan up to 31 December 2018
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	– The Group has participated in a trade exhibition. – The Group has recruited one sales director.
Enhance our research and development resources	– The Group has cooperated with our equipment supplier to develop a new research and development machine. – The Group has recruited two research and development technicians to support our strategy to improve and widen our product offerings.
Enhance our information technology infrastructure	– The Group is developing a new ERP system.

Use of Proceeds from the Share Offer

The Shares were listed on GEM on 16 May 2018. The net proceeds from the Share Offer (after deducting the underwriting fees and related expenses) amounted to approximately HK$39,900,000 have been and will be used for the intended purposes as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus. Set out below is the actual use of net proceeds up from the Listing Date to 31 December 2018:

Use of proceeds	Planned use of proceeds as stated in the Prospectus up to 31 December 2018 HK$'million	Actual use of proceeds up to 31 December 2018 HK$'million
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	**0.6**	**0.2**
Enhance our research and development resources	**9.9**	**8.5**
Enhance our information technology infrastructure	**2.7**	**1.1**

To the extent of the net proceeds of the Share Offer have not been utilised as at 31 December 2018, such unutilised net proceeds were deposited with licensed banks in Hong Kong and are intended to be used in the manner as described in the Prospectus.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Kai Hung Kelvin（黃繼雄）, aged 43, founded our Group in October 2011. He was appointed as a Director on 21 February 2017 and became the chairman of our Board and executive Director on 1 April 2017. Mr. Wong is responsible for the overall business strategies, planning, management and operational development of our Group.

Mr. Wong has over 18 years of experience in business administration. From July 1999 to March 2004, Mr. Wong was the general manager of Leahander Group Limited（利興強集團有限公司）, an investment holding company, where he was responsible for managing staff, and establishing and accomplishing business objectives. From January 2002 to January 2016, Mr. Wong worked in K&T Investments Limited, a company engaging in manufacturing and distribution of knitted fabrics and an investment holding company, with his last position as the general manager, responsible for managing staff, and establishing and accomplishing business objectives.

Mr. Wong graduated from the University of Southern California in the United States with a Bachelor of Science (business administration) (major in science (business administration) and minor in architecture) in May 1999. Mr. Wong is currently an executive member of the 10th Executive Committee of The Y. Elites Association（香港菁英會）. In October 2013, he was awarded the honorary citizenship of Jiangmen of Guangdong Province（廣東省江門市榮譽市民）.

Mr. Xi Bin（奚斌）, aged 43, joined our Group in October 2011. He was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. He is responsible for managing and overseeing the operations and sales function of our Group and is the chief executive officer of our Group.

Mr. Xi has over 20 years of experience in the textile industry. From April 1997 to November 2007, Mr. Xi worked as the merchandising manager of Dongguan Julong Textile Company Limited*（東莞聚龍製衣有限公司）, a company engaging in textile-related business, responsible for sales and marketing. From January 2007 to November 2016, Mr. Xi worked as general manager in Zhuhai Zhaotian Trading, a sourcing agent, responsible for its overall operation. Mr. Xi graduated from Xidian University（西安電子科技大學）in the PRC with a Bachelor of Business Administration in March 2011. Mr. Xi was awarded the degree of Master of Business Administration in November 2016 by China Europe International Business School（中歐國際工商學院）in the PRC.

Mr. Hung Yuk Miu（洪育苗）, aged 38, was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. Mr. Hung was also appointed as the company secretary of the Company (the "**Company Secretary**") on 3 April 2017 and is the compliance officer of the Company pursuant to Rule 5.19 of the GEM Listing Rules. Mr. Hung joined our Group in May 2014 and is responsible for managing and overseeing the financial management of our Group and is the chief financial officer of our Group.

From August 2004 to October 2006, Mr. Hung worked at Deloitte Touche Tohmatsu, Hong Kong branch, an accountancy firm, and his last position was senior accountant, responsible for external audit works. From October 2006 to May 2014, he worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP, Shenzhen branch, an accountancy firm, and his last position was manager in audit department, responsible for external audit works.

* *The English translation of the name is for reference only. The official name of the entity is in Chinese.*

EXECUTIVE DIRECTORS *(Continued)*

Mr. Hung graduated from Curtin University of Technology in Australia with a Bachelor of Commerce (double major in accounting and finance) in September 2004. In November 2007, Mr. Hung was admitted as a certified practising accountant of the Certified Practising Accountant of CPA Australia Ltd. Since January 2011, he has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Heng Henry (伍永亨), aged 36, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company.

Mr. Ng has over nine years of experience in accounting, auditing, corporate governance and capital market. After graduation from the University of Southern California in the United States in 2005, Mr. Ng studied full time in preparation for accounting professional examination. From January 2008 to March 2010, Mr. Ng worked at PricewaterhouseCoopers, Hong Kong branch, an accountancy firm, as the senior associate at Assurance of Financial Services Practice, responsible for the auditing and accountancy procedures of Hong Kong companies. Since September 2010, he has worked at Tony Kwok Tung Ng & Co., an accountancy firm, and was appointed as a principal in January 2013, responsible for reviewing statutory audit files of both local and multinational companies, managing the audit teams and leading the non-audit projects and consulting services.

In May 2005, Mr. Ng was awarded the Bachelor of Science (accounting) by the University of Southern California in the United States. In August 2007, he was admitted as a member of the American Institute of Certified Public Accountants. In May 2012, he was admitted as a practicing member in Washington State Board of Accountancy. Since January 2017, he has been a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. Sze Irons BBS, JP (施榮懷), aged 57, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company. Mr. Sze has extensive experience in investment and corporate management. He is also the director of 4 listed companies.

Mr. Sze graduated with a Bachelor of Science from the University of Wisconsin-La Crosse in the United States in May 1985. Mr. Sze is the vice president of the Population, Resources and Environment Committee of the National Committee (全國政協一人口資源環境委員會副主任) and an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議), and currently the permanent honorary president of the Chinese Manufacturers' Association of Hong Kong. He is also a member of election committee of the Chief Executive of the Hong Kong Special Administrative Region.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Fong Kin Tat（方建達）, aged 44, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company.

Mr. Fong has extensive experience in corporate management. From August 1997 to July 2000, Mr. Fong worked at IBM, a multinational technology company, as an advisory IT specialist, responsible for pitching the IT solution concept to IBM clientele. From August 2000 to August 2004, he worked at AGENDA (H.K.) Limited (now under Wunderman, formerly PNM Solutions), a digital marketing company, as a sales and marketing manager, responsible for sourcing customers in Hong Kong and China. From August 2004 to November 2011, he worked at Sun Tze Swimwear Printing Co., Ltd., a specialised printer for stretch fabrics, as the managing director, responsible for overall operation and management. Since December 2011, he has been the managing director of Times Swimwear Printing Co., Ltd., a company engaging in printing of swimwear, responsible for marketing and overall management.

In June 1997, Mr. Fong graduated from the University of Toronto in Canada with a Bachelor of Science.

SENIOR MANAGEMENT

Mr. Li Yanmin（李彥敏）, aged 53, joined our Group in May 2015 as deputy general manager and human resources controller. He is responsible for operating and overseeing the human resources department of our Group.

From November 2004 to July 2010, he was employed by Fu Yu Precision Component (Kun Shan) Co., Ltd.*（富鈺精密組件（昆山）有限公司）, a company engaging in electronic research & processing, with his last position as human resources officer, responsible for human resources management. From July 2010 to February 2012, he worked at PanAsialum (China) Company Limited*（榮陽鋁業（中國）有限公司）, a company engaging in aluminium trading, as the assistant chief executive officer, responsible for overall operation support to the management.

Mr. Li graduated from Central South University of Technology（中南工業大學）with a Bachelor of Engineering (Mining Engineering), specialising in engineering surveying in July 1988.

Ms. Lin Huijun（林輝軍）, aged 28, joined our Group in April 2014 as research and development manager. She is responsible for operating and overseeing the research and development department of our Group. From March 2009 to May 2014, she was an assistant to research and development manager at Zhucheng Yumin Knitting Co., Ltd.*（諸城裕民針織有限公司）, responsible for research and development related matters. She graduated from Guangxi City College*（廣西城市職業學院）with a diploma of Computer Application in June 2012.

COMPANY SECRETARY

Mr. Hung Yuk Miu（洪育苗）, an executive Director, was appointed as the Company Secretary on 3 April 2017. Please see the paragraph headed "Executive Directors" of this section for further details of the biography of Mr. Hung.

* *The English translation of the name is for reference only. The official name of the entity is in Chinese.*

INTRODUCTION

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**"). Since the Listing Date and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code.

THE BOARD

Responsibilities

The Board is entrusted with the overall responsibility for promoting the success of the Company by providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations. The Board is responsible for all decision-making in respect of all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control systems, risk management systems, material transactions (in particular those may involve conflict of interests), financial information, change of Directors, ad hoc projects and other significant financial and operational matters. The Board has the full support of the management of the Group to discharge its responsibilities.

The day-to-day management, administration and operation of the Company are currently delegated to the executive Directors by the Board and the senior management of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions. All Directors have full and timely access to all relevant information of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

In addition, the Board has also delegated various responsibilities to the board committees of the Company. Further details of the board committees of the Company are set out below in this corporate governance report.

The Company has arranged appropriate liability insurance coverage for all the Directors and officers of the Group, including company securities, employment practices, regulatory crisis event, investigation, litigation, tax liabilities and public relation, etc., which is reviewed by the Board on a regular basis.

Corporate Governance Report

THE BOARD *(Continued)*

Composition

The nomination committee of the Company (the "**Nomination Committee**") ensures the composition of the Board a balance of skills, experiences, qualifications and diversity of perspectives appropriate to the requirements of the business and development of the Company. The current composition of the Board consists of three (3) executive Directors and three (3) independent non-executive Directors ("**INED(s)**"). INEDs are responsible for exercising independent judgment on various Board decisions. The Directors during the year ended 31 December 2018 were set out below:

Executive Directors

Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin *(Chief Executive Officer)*
Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng, Henry

Each of the executive Directors has entered into a service contract with the Company for an initial term of three (3) years commencing from the 1 April 2017, subject to retirement and re-election in accordance to the articles of association of the Company (the "**Articles**") and the GEM Listing Rules and terminable by either the Company or the executive Director giving each other three-month notice in writing. Each of the INEDs has entered into a letter of appointment with the Company for an initial term of three (3) years commencing from 23 April 2018, the Listing Date, respectively.

Pursuant to the Article 84(1) and 84(2) of the Articles, each of Mr. Wong Kai Hung Kelvin and Mr. Xi Bin will retire from the office of Director and shall, being eligible for re-election at the forthcoming annual general meeting of the Company to be held on Wednesday, 29 May 2019 ("**2019 AGM**"), offer themselves for re-election at the 2019 AGM. The Board and the Nomination Committee of the Company has recommended the re-election of all the retiring Directors standing for re-election at the 2019 AGM.

THE BOARD *(Continued)*

Composition *(Continued)*

The participation of INEDs in the Board brings a diverse range of expertise, skills and independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company (the "**Shareholders**") have been duly considered. Each of the INEDs has confirmed in writing his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Board and the Nomination Committee considered that all INEDs are independent.

There is a balance of skills and experiences for the Board, which is appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Biographical Details of Directors and Senior Management" of this report.

Each of the Board members has no financial, business, family or other material/relevant relationships with each other.

The list of current Directors (by category) is also disclosed in this report and all corporate communications issued by the Company pursuant to the GEM Listing Rules from time to time. The Company also maintains on its website (www.smart-team.cn) and on the Stock Exchange's website (www.hkexnews.hk) an updated list of current Directors (by category) identifying their role and function.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills as to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director receives comprehensive, formal and tailored induction at time around the first occasion of his appointment, so as to ensure that he has appropriate understanding of the Group structure, Board and Board committee meetings procedures, business, management and operations of the Group, etc. and that he is fully aware of his responsibilities and obligations under the GEM Listing Rules and applicable regulatory requirements.

Besides, the Company keeps circulating information and materials to develop and update Directors' knowledge and skills as and when appropriate. All the information and materials are relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities. There are also arrangements in place for providing continuing briefing and professional development to each Director. All Directors are encouraged to attend relevant training courses at the Company's expense. The Company Secretary is responsible for keeping records of training taken by each Director.

CONTINUOUS PROFESSIONAL DEVELOPMENT *(Continued)*

The individual training record of each Director received during the year ended 31 December 2018 is set out below:

	Attending training course(s) relevant to corporate governance	Reading materials relevant to corporate governance
Executive Directors		
Mr. Wong Kai Hung Kelvin	✔	✔
Mr. Xi Bin	✔	✔
Mr. Hung Yuk Miu	✔	✔
Independent non-executive Directors		
Mr. Sze Irons *BBS JP*	✔	✔
Mr. Fong Kin Tat	✔	✔
Mr. Ng Wing Heng, Henry	✔	✔

BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year for reviewing and approving financial statements, operating performance, budgets, rules and regulations, announcements and circulars issued by the Company and considering and approving the progress of the various on-going projects, the overall strategies and policies of the Company. Additional meetings would be arranged if and when required. Annual meeting schedules of each meeting of the Board and for the audit committee (the "**Audit Committee**"), the Nomination Committee, the remuneration committee (the "**Remuneration Committee**") and the corporate governance committee (the "**Corporate Governance Committee**") of the Company (each a "**Committee**" together (the "**Committees**")) are normally made available to Directors in advance. Board members are provided with all agenda and adequate information for their review before the meetings. The Board and Committee members are provide with comprehensive meeting papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event no less than 3 days before the date of the meeting). All Directors and the Committee members are given opportunities to include matters in the agenda for regular Board and Committee meetings and/or their meetings, if required. To facilitate the decision-making process, the Directors and the Committee members are free to have access to the management for enquiries and to obtain further information, when required.

After the meeting, draft minutes are circulated to all Directors and Committee members for comments. Minutes of Board meetings and Committees' meetings are kept by the Company Secretary and are available for inspection by the Directors at all times.

BOARD MEETINGS *(Continued)*

Directors and Committee members may participate either in person or through electronic means of communications. Directors and Committee members are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at meetings. Directors and Committee members who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. During the year ended 31 December 2018, the Company held several Board meetings, including but not limited to consider and approve the relevant resolutions in relation to the issues of listing of the Shares on GEM. The Board schedules to have at least four regular meetings and at least one meeting for each of the Committees in the year going forward. Various Board meetings and the Committees' meetings were held from the Listing Date up to 31 December 2018, the individual attendance records of each Director at these meetings are set out below:

	Attendance record of Directors at the meetings					
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Corporate Governance Committee**	**General meeting**
Mr. Wong Kai Hung Kelvin	2/2	N/A	N/A	N/A	1/1	N/A
Mr. Xi Bin	2/2	N/A	N/A	N/A	N/A	N/A
Mr. Hung Yuk Miu	2/2	N/A	N/A	N/A	N/A	N/A
Mr. Sze Irons *BBS JP*	2/2	2/2	N/A	N/A	N/A	N/A
Mr. Fong Kin Tat	2/2	2/2	N/A	N/A	1/1	N/A
Mr. Ng Wing Heng, Henry	2/2	2/2	N/A	N/A	1/1	N/A

Since the Listing Date, no annual general meeting was held. No Remuneration Committee meeting and Nomination Committee meeting was held since the Listing Date to 31 December 2018.

Apart from the said meetings, matters requiring Board approval were arranged by means of circulation of written resolutions of all Board members.

All business transacted at the Board meetings and by written resolutions were well-documented. Minutes of the Board meetings and written resolutions are kept by the Company Secretary and are available for inspection by the Directors at all times.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the chairman of the Board and the chief executive officer to ensure a balance of power and authority. The responsibilities of the chairman of the Board and the chief executive officer are clearly defined. The roles of chairman and chief executive officer of the Company are separate and not performed by the same individual to avoid power being concentrated in any one individual. Mr. Wong Kai Hung Kelvin was the chairman of the Board throughout the year. Mr. Xi Bin is the chief executive officer of the Company.

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing different aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smart-team.cn. All Committees should report to the Board on their decisions or recommendations made. All Committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference on 23 April 2018. The terms of reference of the Audit Committee, which was updated on 1 January 2019, is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee is delegated with the authority from the Board to provide independent oversight of the Group's financial reporting and internal control systems, and the adequacy of the external audits.

The Audit Committee currently consists of three (3) INEDs, namely Mr. Ng Wing Heng Henry, Mr. Sze Irons, *BBS JP* and Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry currently serves as the chairman of the Audit Committee, who holds the appropriate professional qualifications as required under rules 5.05(2) and 5.28 of the GEM Listing Rules.

Pursuant to the terms of reference of the Audit Committee and code provision C.3.3 of the CG Code, the members of the Audit Committee should meet at least four times a year to consider the budget, revised budget, quarterly reports, interim report and annual report before submission to the Board and meet the external auditors at least twice a year.

From the Listing Date up to 31 December 2018 (the "**Relevant Period**"), the members of the Audit Committee met the external auditors for twice, fulfilling the requirement of code provision C.3.3. During the Relevant Period, the individual attendance records of each member at the meeting of the Audit Committee is set out on page 19 of this annual report.

During the Relevant Period, the Audit Committee has held two (2) meetings, of which, one of the meetings was also with the presence of the external auditor. During the said two meetings, the following major tasks were performed:

a. reviewing and discussing the quarterly and interim financial statements, results announcements and reports, the related accounting principles and practices adopted by the Group and the relevant audit findings;

b. reviewing and discussing the risk management and internal control system of the Group;

c. discussing and recommending the re-appointment of external auditor; and

d. reviewing the Company's continuing connected transactions for the year ended 31 December 2018 pursuant to the GEM Listing Rules.

AUDIT COMMITTEE *(Continued)*

The Audit Committee has recommended the re-appointment of the external auditor, SHINEWING (HK) CPA Limited.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the year ended 31 December 2018 and up to the date of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the fee paid/payable to auditor in respect of audit service and/or non-audit services provided by the auditor to the Group were as follows:

Nature of services	2018 HK$'000	2017 HK$'000
Audit services	**700**	102
Non-audit services	**260**	210
Initial public offering	**1,290**	1,800

NOMINATION COMMITTEE

The Company established the Nomination Committee with written terms of reference on 23 April 2018. The terms of reference of the Nomination Committee, is currently made available on the Stock Exchange's website and the Company's website. The Nomination Committee is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders and to assess INEDs' independence and commitment.

The Company also has a board diversity policy ("**Board Diversity Policy**") and a nomination policy ("**Nomination Policy**") in place. The Nomination Policy aims at applying the principles of the Board Diversity Policy and other provisions under the GEM Listing Rules to improve transparency around the process and criteria adopted by the Nomination Committee in selecting and recommending candidates as Directors (including non-executive Directors and INED(s)).

In identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the Board Diversity Policy and the Nomination Policy. A number of factors will be taken into account, including but not limited to age, skills, regional and industry experience, cultural and educational background, race, gender and other qualities. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's own business model and specific needs from time to time.

The Nomination Policy and the Board Diversity Policy are reviewed and shall continue to be reviewed on regular basis.

As to the right to nominate, both the Directors and the Shareholders may nominate person(s) to be appointed as a Director. Upon assessing the merits and for INEDs, their independence by the Nomination Committee, the Nomination Committee will make recommendations to the Board. For detailed nomination procedures, please refer to the Nomination Policy and the nomination procedure of the Company uploaded on the Company's website and the Stock Exchange's website.

NOMINATION COMMITTEE *(Continued)*

The Nomination Committee consists of one (1) executive Director, namely Mr. Wong Kai Hung Kelvin, and two (2) INEDs, namely Mr. Sze Irons *BBS JP* and Mr. Ng Wing Heng Henry. Mr. Sze Irons *BBS JP* currently serves as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, among other things, making recommendations on any proposed changes to the Board to complement our Company's corporate strategies.

CORPORATE GOVERNANCE COMMITTEE

The Company established the Corporate Governance Committee with written terms of reference on 23 April 2018.

The terms of reference of the Corporate Governance Committee is currently made available on the Stock Exchange's website and the Company's website.

The Corporate Governance Committee is also responsible for, among others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

a. to develop and review our Group's policies and practices on corporate governance and make recommendations;

b. to review and monitor the training and continuous professional development of the Directors and senior management;

c. to review and monitor our Group's policies and practices on compliance with legal and regulatory requirements;

d. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

e. to review our Group's compliance with the provisions of the CG Code and disclosure in the corporate governance report.

The Corporate Governance Committee currently consists of one (1) executive Director, Mr. Wong Kai Hung Kelvin and two (2) INEDs, namely, Mr. Ng Wing Heng Henry and Mr. Fong Kin Tat. Mr. Wong Kai Hung Kelvin currently serves as the chairman of the Corporate Governance Committee.

During the year, the members of the Corporate Governance have fulfilled the requirement of code provision D.3.2, being responsible for, among other matters, reviewing and monitoring the training and continuous professional development of the Directors; reviewing and monitoring the code of conduct and compliance with legal and regulatory requirements and reviewing the Company's compliance with the CG Code and disclosure in this report.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference on 23 April 2018. The terms of reference of the Remuneration Committee is currently made available on the Stock Exchange's website and the Company's website.

The Remuneration Committee is delegated with the authority from the Board to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. The Remuneration Committee ensures that all employees and Directors are appropriately remunerated in accordance with the Group's strategy as well as its long-term and short-term performance.

The Remuneration Committee consists of one (1) executive Director, namely Mr. Wong Kai Hung Kelvin, and two (2) INEDs, namely Mr. Fong Kin Tat and Mr. Ng Wing Heng Henry. Mr. Fong Kin Tat currently serves as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other things, making recommendations to the Board on our Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy and on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee is also responsible for assessing the performance of the Directors and approving the terms of their service contracts.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the Board and the senior management by band for the Relevant Period is set out below:

Remuneration Band	Number of Individuals
Nil to HK$1,000,000	7
HK$1,000,001 to HK$2,000,000	1

Of the five individuals with the highest emoluments, 3 of them (FY2017: 3) are our executive Directors. Details of the remuneration of each Director and the five individuals with the highest emoluments in the Group for the year ended 31 December 2018 are set out in note 13 to the consolidated financial statements, respectively.

INTEREST OF THE COMPLIANCE ADVISER

As notified by Sunfund Capital Limited ("**Sunfund**"), the Company's compliance adviser, save for the compliance agreement entered into between the Company and Sunfund dated 7 April 2017 in connection with the Listing, none of Sunfund or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2018 and up to the date of this report, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board. The Company Secretary is responsible for advising the Board on the corporate governance matters and facilitating induction and professional development of the Directors. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations, are followed.

Mr. Hung Yuk Miu was appointed as the Company Secretary in April 2017. For his professional qualifications, please refer to the section headed "Biographical Details Of Directors And Senior Management" in this report. He complied with all the required qualifications, experiences and training requirements under the GEM Listing Rules. During the year ended 31 December 2018, the Company Secretary has complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The responsibilities of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report on pages 48 to 53 in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**"). Having made specific enquiry, all Directors have confirmed that they have complied with the Securities Dealing Code for the year ended 31 December 2018 and up to the date of this report.

Besides, the Company has adopted internal control policy in relation to the disclosure of inside information of the Company (the "**Inside Information Policy**").

No incident of non-compliance of the Securities Dealing Code and/or the Inside Information Policy was noted by the Company for the year ended 31 December 2018 up to the date of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Company does not have an internal audit function and the Board has entrusted the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covered all material controls, including financial, operational and compliance controls. Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated that to all staff; the Board is aware of its obligations to announce any inside information in accordance with the GEM Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only the Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

During the year ended 31 December 2018, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The Audit Committee also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review during the year ended 31 December 2018 did not reveal any major issues and the Board considers the risk management and internal control systems effective and adequate.

INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies.

Shareholders are encouraged to attend the general meetings of the Company and the Directors always make efforts to fully address any questions raised by the Shareholders at the annual general meetings of the Company. The chairman of the Board will attend the annual general meetings to answer Shareholders' questions. The auditor of the Company will also attend the annual general meetings to answer questions about the conduct of the audit.

The 2019 AGM of the Company will be held on Wednesday, 29 May 2019, the notice of which shall be sent to the Company's shareholders in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 58 of the Articles, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company holding at the date of 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 of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

SHAREHOLDERS' RIGHTS *(Continued)*

Putting Forward Enquiries to the Board *(Continued)*

The Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address: Room 1006, 10/F., Center Point, 181-185 Gloucester Road, Wan Chai, Hong Kong
Phone no.: (852) 3611 0268
Email: ir@smart-team.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, the chairmen of Audit Committee, Remuneration Committee, Nomination Committee or, in their absence, other members of the respective committees, will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

The Company has not made any changes to its Articles during the year ended 31 December 2018. An up-to-date version of the Articles is also available on the Company's website and the Stock Exchange's website.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**") with effect from 1 January 2019. The Dividend Policy sets out the factors that the Board will take into account in deciding the declaration of interim dividends, special dividends and final dividends. The Dividend Policy aims at enhancing transparency of the Company and facilitating the Shareholders and investors to make informed investment decisions relating to the Company.

DIVIDEND POLICY *(Continued)*

The dividend that our Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Board:

- the level of cash and retained earnings;
- the actual and projected financial performance;
- the projected levels of capital expenditure and other investment plans; and
- restrictions on payment of dividends imposed on our Group by its financing arrangement (if any).

CONSTITUTIONAL DOCUMENTS

The existing Articles were adopted and become effective on 23 April 2018.

A copy of the Articles is posted on the designated website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.smart-team.cn).

There had been no changes to the Articles since the Listing Date to the date of this report.

On behalf of the Board

Wong Kai Hung, Kelvin
Chairman and Executive Director

15 March 2019

The Directors are pleased to present this report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company has issued 120,000,000 Shares under the Share Offer and 350,000,000 Shares pursuant to the Capitalisation Issue (as defined in the Prospectus). The net proceeds from the Share Offer (after deducting the underwriting fees and related expenses) amounted to approximately HK$39,900,000. All Shares are ordinary shares.

The Directors believe that the Listing represents an important step to implement our strategies and will enhance its corporate profile and the net proceeds from the Share Offer will also strengthen our financial position and will enable our Group to implement our business plans.

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in sales of functional knitted fabrics and apparel.

Details of the principal activities of the principal subsidiaries of the Company are set out in note 32 to the consolidated financial statements and an analysis of the Group's performance for the year ended 31 December 2018 is set out in the "Management Discussion and Analysis" section of this report. For future business development, the Group will strengthen its position in research and development of the new functional fabrics as well as expanding different markets and strengthening the marketing and sales efforts to attract new customers.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the four years ended 31 December 2015, 2016, 2017 and 2018, as extracted from the Prospectus and the consolidated financial statements is set out on page 4 of this report. This summary does not form part of the audited consolidated financial statements of the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report.

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

PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year ended 31 December 2018 in the share capital of the Company are set out in note 25 to the consolidated financial statements of this annual report.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

RESERVE

Details of movements in the reserves of the Company and the Group are set out in note 35 to the consolidated financial statements and the consolidated statement of changes in equity of this report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to Shareholders comprised of the share premium, capital reserve and retained profits with an aggregate amount approximately HK$49,025,000 (2017: no reserve available for distribution to Shareholders.)

REVIEW OF FINANCIAL INFORMATION

The Audit Committee comprises three INEDs, namely, Mr. Ng Wing Heng Henry, Mr. Sze Irons, *BBS JP*, Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry is the chairman of the Audit Committee. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls system, risk management system and financial reporting matters including the review of the audited consolidated financial statements and annual results of the Group for the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 35.2% and 71.6% (2017: approximately 22.9% and 66.4%) of the Group's total revenue for the year, respectively.

During the year ended 31 December 2018, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 32.2% and 85.2% (2017: 27.4% and 73.8%) of the Group's total purchase for the year, respectively.

At no time during the year under review, that any of the Directors, their close associates or any Shareholders (which to the best knowledge of the Directors who owns more than 5% of the Company's issued share capital), has any interests in any of the above five largest customers and suppliers of the Group for the year.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers, customers and other stakeholders to meet its immediate and long-term goals. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

During the year ended 31 December 2018, there were no material and significant dispute between the Group and its employees, suppliers, customers and/or other stakeholders.

DEED OF NON-COMPETITION

Mr. Wong Kai Hung Kelvin and Cosmic Bliss Investments Limited (together, the "**Controlling Shareholders**"), have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the "**Deed of Non-Competition**") entered into between the Controlling Shareholders and the Company dated 23 April 2018 during the period under review.

The INEDs have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Controlling Shareholders during the period under review.

DIRECTORS

The Directors who held office during the year ended 31 December 2018 and up to the date of this annual report were:

Executive Directors

Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin
Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

In accordance with the Articles, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. For details about the retirement and rotation of Directors, please refer to "Corporate Governance Report – The Board" of this report (page 16).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of all the Directors and senior management of the Company are set out on pages 12 to 14 of this report.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the INEDs, a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the INEDs as independent.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for a term of three years which is subject to termination by either party giving not less than three months' written notice and subject to retirement and re-election in accordance to the Articles and the GEM Listing Rules.

Each of the INEDs has entered into a letter of appointment with the Company, respectively. Each of the INED's appointment is for an initial term of there (3) years, commencing from the Listing Date, 23 April 2018, subject to retirement and re-election in accordance to the Articles and GEM Listing Rules and terminable by either party by giving at least three month's written notice to the other.

All of the executive Directors' service contracts and the INED's letters of appointment entered between the Company and the respective Director has been reviewed and ratified by the Nomination Committee. None of the Directors being proposed for re-election at the 2019 AGM has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

As at 31 December 2018, the Group had 80 (2017: 96) employees. The emolument policy of the employees of the Group is formulated by the Remuneration Committee based on their merit, qualifications and competence. It is the Group's policy to compensate each employee fairly and equitably. The Group has a system for measuring employees' performance against agreed-upon goals with specific performance standards. Performance discussion is carried out on an ongoing basis and a formal evaluation is conducted at least once a year to review employees' overall performance, achievements, and areas in need of improvement. Salary review will be based on both Group's performance and individual performance and subject to the Group's discretion.

The emoluments of the Directors of the Company are generally decided by the Remuneration Committee and then recommended to the Board, having regard to the Group's operating results, individual performance and comparable market statistics. All the emoluments of Directors have been reviewed and approved or ratified by the Remuneration Committee.

Details of the emoluments of the Directors of the Group are set out in note 12 to the consolidated financial statements of this annual report.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year ended 31 December 2018.

RELATED PARTY TRANSACTIONS

Our Directors confirm that the Group entered into various purchase agreements with Zhongshan Da Chong Elastic Thread Factory Limited ("**Da Chong**") in 2018. Da Chong, which is owned as to 15% by Mr. Wong Kai Hung Kelvin and 85% collectively by his close family members, is our connected person and the transactions contemplated under such purchase agreements constituted continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

As (i) all the transactions contemplated under the abovementioned purchase agreements were conducted on normal commercial terms and (ii) all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules (other than the profit ratio) for the transactions under such purchase agreements, on an aggregated basis, are less than 5% and the annual amount was less than HK$3 million, the continuing connected transactions contemplated thereunder are fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. For details of such transactions, please refer to note 30 to the audited consolidated financial statements of the Company contained in this annual report.

Mr. Xi Bin, our executive Director and hence our connected person, has provided personal guarantee ("**Personal Guarantee**") for the bank borrowings to the Group during the year ended 31 December 2018. For details, please refer to notes 23(a) and 30(b) to the consolidated financial statements. The Personal Guarantee constitutes a connected transaction of the Group under Chapter 20 of the GEM Listing Rules. As the Personal Guarantee was provided by Mr. Xi to the Group on normal commercial terms or better and that it is not secured by the assets of our Group, it is fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Save for the transactions disclosed above, the other related party transactions entered into by the Group and its related parties as set out in note 30 to the audited consolidated financial statements do not constitute connected transactions or continuing connected transactions under the GEM Listing Rules which require announcement, annual review and independent shareholders' approval.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 30 to the audited consolidated financial statements, there were no transaction, arrangement, or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which any Director or any entities connected with a Director, the controlling Shareholder, the substantial Shareholders had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE *(Continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which are (a) recorded in the register required to be kept under section 352 of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to in Rule 5.47 of the GEM Listing Rules were as follows:

Long Positions in the Shares or the ordinary shares of the associated corporations of the Company

Name of Director	Name of Group member/associated corporation	Capacity/nature of Interest	Total number of shares	Percentage of interest
Mr. Wong Kai Hung Kelvin ("**Mr. Wong**")	The Company	Interest in a controlled corporation	360,000,000 Shares *(Note 1)*	75.00%
Mr. Wong	Cosmic Bliss Investments Limited ("**Cosmic Bliss**") *(Note 2)*	Beneficial owner	1 share of US$1.00	100.00%

Notes:

1. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. By virtue of the provisions in Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss. Mr. Wong is the sole director of Cosmic Bliss.

2. Cosmic Bliss is an associated corporation of our Company by virtue of its being the holding company of our Company. Cosmic Bliss is wholly owned by Mr. Wong.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Directors' Rights to Acquire Shares and Debentures

At no time since the Listing Date and up to the date of this report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2018, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) have interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares of the Company

Name of person	Name of Group member	Capacity/nature of Interest	Number and class of securities	Percentage of interest
Cosmic Bliss *(Note 1)*	The Company	Beneficial owner	360,000,000 Shares	75.00%
Ms. Kwan, Vivian Wun-kwan *(Note 2)*	The Company	Interest of spouse	360,000,000 Shares	75.00%

Notes:

1. The entire issued share capital of Cosmic Bliss is wholly owned by Mr. Wong, our executive Director.

2. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. Ms. Kwan, Vivian Wun-kwan is the spouse of Mr. Wong. By virtue of the provisions in Part XV of the SFO, Ms. Kwan, Vivian Wun-kwan is deemed to be interested in all the Shares Mr. Wong is interested or deemed to be interested.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the existing Directors is currently in force and was in force throughout the year ended 31 December 2018. The Company has taken out directors' liability insurance that provides appropriate cover for the Directors.

COMPETING INTEREST

Save as disclosed in "Relationship with our Controlling Shareholders – Outside Interests" in the Prospectus, during the year ended 31 December 2018, none of the Directors or the controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group of interests with the Group for the year ended 31 December 2018.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year end 31 December 2018 or subsisted at the end of the year.

PURCHASE, SALES OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company from the Listing Date and up to the date of this report, save for those related to the reorganization, details of which may refer to the Prospectus.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient prescribed public float of not less than 25% of the issued Shares as required under the GEM Listing Rules from the period from the Listing Date up to the date of this report.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report "on pages 15 to 28 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate in compliance with the applicable environmental laws as well as protecting the environment by minimising the negative impact of the Group's existing business activities on the environment. For details, please refer to the sub-section headed "Protecting Our Environment" under the section headed "Environmental, Social and Governance Report" on pages 45 to 47 of this annual report. To the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2018.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board reviews and monitors the Group's policies and practices on compliance with legal and regulatory requirements on a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

During the year ended 31 December 2018 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2018. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the GEM Listing Rules are provided in the Corporate Governance Report of this annual report.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Sunfund, the Company's compliance adviser, save for the compliance agreement entered into between the Company and Sunfund dated 7 April 2017 in connection with the Listing, none of Sunfund or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2018 and up to the date of this report, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rule.

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smart-team.cn. All the Committees should report to the Board on their decisions or recommendations made. All Committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

EVENT AFTER THE REPORTING PERIOD

The Board is not aware of any significant event after the reporting period of the Group that requires disclosure.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been prepared by SHINEWING (HK) CPA Limited ("**Shinewing**"), the auditor of the Company, who will retire at the conclusion of the 2019 AGM and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Shinewing as auditor of the Company will be proposed at the 2019 AGM.

Environmental, Social and Governance Report

ABOUT THE REPORT

This is the first Environmental, Social and Governance Report (the "**ESG Report**") of ST International Holdings Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**" or "**We**"). The ESG Report not only elaborates our commitments and strategies but also summarizes our efforts and achievements on corporate social responsibility and sustainable development from 1 January to 31 December 2018 (the "**Year**"). As for the information of corporate governance, please refer to the Corporate Governance Report of this annual report.

SCOPE OF THE REPORT

The ESG Report focuses on the sustainability approach and performance in environmental and social aspects of our core business, namely manufacturing and designing functional knitted fabrics, and sales of apparel made of our functional knitted fabrics. The environmental key performance indicators ("**KPIs**") as disclosed in the ESG Report are based on the performance of the Group's subsidiaries, including Dongguan Smart Union Textiles Technology Co., Ltd. ("**Smart Union**") and Guangdong Smart Team Textiles Technology Co., Ltd. ("**Guangdong Smart Team**") in the People's Republic of China (the "**PRC**") as well as the headquarter of the Group in Hong Kong. We will continue to strengthen information collection in order to enhance the environmental realm and disclosure of information on the sustainable development.

REPORTING FRAMEWORK

The ESG Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 20 to the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

SUGGESTIONS AND FEEDBACK

Our continuous improvement relies on your valuable opinions. Your opinions will be highly valued. If you have any advice or suggestions, please email to yanminli@smart-team.cn.

STAKEHOLDER ENGAGEMENT

We highly value the communications with stakeholders, and work to promote the Group's practices in sustainable corporate development and understand the needs of stakeholders through various channels in order to address their reasonable expectations and requirements. The Group will continue to increase the involvement of stakeholders via constructive conversation with a view to charting a course for long term prosperity. The following table summarizes the expectations from and communication channels for our major stakeholders.

Stakeholders	Expectations	Communication Channels
Government and Regulators	• Compliance with national or local policies, laws and regulations • Support for local economic growth • Driving local employment • Tax payment in full and on time • Ensuring production safety	• Regular Information reporting • Regular meetings with regulators • Dedicated reports • Examination and inspection
Shareholders	• Returns • Compliant operation • Growth in corporate value • Transparency and effective communication	• General meetings • Announcements • Email, telephone communication and company website
Business Partners	• Operation with integrity • Equal rivalry • Performance of contracts • Mutual benefit	• Review and appraisal meetings • Business communication • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operation with integrity	• Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Client review
Environment	• Energy saving and emission reduction	• ESG reporting
Industry	• Establishment of industry standards • Driving industry development	• Participation in industry forums • Visits and inspections

STAKEHOLDER ENGAGEMENT *(Continued)*

Employee	• Protection of rights • Occupational health • Remunerations and benefits • Career development • Humanity cares	• Meetings with employees • House journal and intranet • Employee mailbox • Training and workshop • Employee activities
Community and the Public	• Improvement in community environment • Participation in charity • Transparent information • Social media platforms	• Company website • Announcements • Interview with media

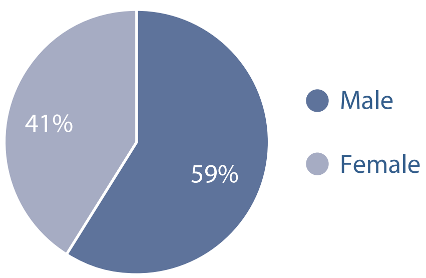
CARING ABOUT OUR EMPLOYEES

Equal Employment Opportunity

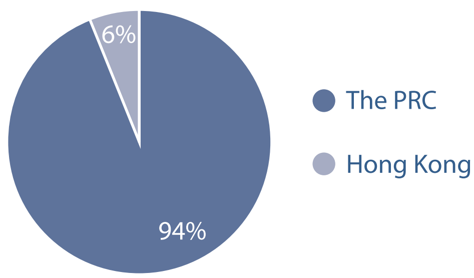
In order to provide a good working environment and protect the rights of our employees, the Group strictly conforms to relevant laws and regulations such as the Labor Law of the PRC, Labor Contract Law of the PRC and Social Insurance Law of the PRC and the Employment Ordinance of Hong Kong and formulates policies accordingly to cover recruitment, probation, termination, working hours and holidays. Adhering to the principle of openness and fairness, job applicants are assessed on the basis of merits and criteria regardless of his or her gender, race, religion, physical disability, marital status, etc. Meanwhile, illegal employment of child labour is expressly prohibited. During the employment process, all candidates are required to provide identification documents to ensure they have reached the statutory working age. To prevent any form of forced labour, a job description outlining the principal responsibilities of the employee is attached in the labour contract, which also covers matters such as wages, working hours, probation period, and requirement for notice of termination. For overtime work mutually agreed with employees, overtime salary or compensatory leave will be provided afterwards.

The Group seeks to build an elite workforce by recruiting and promoting outstanding employees. We offer an appealing remuneration package to our staff. The salary of each employee is determined according to his or her experience, qualifications, capability and the prevailing market remuneration rate. Staff performance review is also conducted regularly so as to form the basis of the management decision with regards to salary adjustment, bonuses and promotions. As at 31 December 2018, the total number of employee was 80 and the distribution by gender and region are shown in the following figures:

TOTAL WORKFORCE BY GENDER



TOTAL WORKFORCE BY REGION

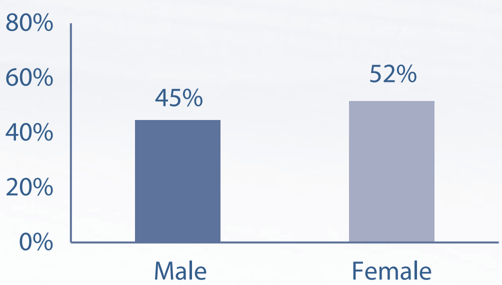


CARING ABOUT OUR EMPLOYEES *(Continued)*

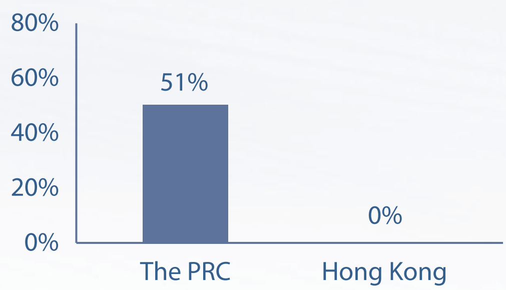
Equal Employment Opportunity *(Continued)*

For employees who have decided to resign, exit interviews will also be conducted in order to collect precious opinions for any possible improvement of the Group's policies. During the Year, the turnover rates of employee by gender and region are shown as below:

TURNOVER RATE BY GENDER



TURNOVER RATE BY REGION



During the Year, the Group complied with all the applicable labour laws and regulations in the PRC and Hong Kong, and did not face any disciplinary action with respect to labour protection issues. There were no reported non-compliance Incidents in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare of any employment that have a significant impact on the Group.

Employee Benefits

In addition to the remuneration package, there is an assortment of welfare offered by the Group. The benefit system of the Group can be divided into three parts, which include statutory benefits, caring benefits and incentive benefits.

Statutory benefits

- Social insurances and housing provident funds for employees in the PRC
- Mandatory Provident Fund Schemes (MPF) for employees in Hong Kong
- All statutory holidays

Caring benefits

- Lunch allowance
- High-temperature allowance
- Free accommodation
- Paid annual leave, maternity leave, paternity leave, marriage leave, funeral leave and sick leave

Incentive benefits

- Wage for seniority
- Long service allowance
- Performance-based salary
- Year-end bonus

The Group strives to create a positive work-life balance for our employees. For instance, we have started a football team which organized football games and competitions on a regular basis. At the end of the Year, we arranged a team-building tour to Harbin, the PRC, for our employees in sales and research department, allowing them to relax and fostering their communication.

CARING ABOUT OUR EMPLOYEES *(Continued)*

Training and Development

Our employees' knowledge, skills and innovation capabilities are of critical importance to our business. With that in mind, we strive to create an intellectually-stimulating environment within which employees not only can develop basic skills and knowledge but also specific talent and ability.

All new employees are required to attend induction courses to ensure that they are equipped with the necessary skills to perform their duties. Our Group also provides regular training to our employees on areas such as technical know-how, industrial knowledge and hands-on skills. We encourage our research and development personnel to participate in training provided by external research institutions, such as Donghua University, in order to maintain our capability in developing new products. We also organize visits to Japan, where one of our major raw materials suppliers is located at, for our employees to learn about Japan's corporate culture and customer service skills.

In an attempt to encourage our employees to take the initiative in learning, we offer reimbursements to our staff who have received relevant training and completed development programs that pertain to their respective work positions and skills.

Health and Safety

We have attached great importance to employees' health and safety and strictly abide by the laws and regulations that are relevant to occupational health and safety which include the Law of the PRC on the Prevention and Control of Occupational Diseases, and the Occupational Safety and Health Ordinance of Hong Kong. We have formulated an occupational health and safety system, and our subsidiary, Guangdong Smart Team, has obtained the certificate of OHSAS 18001 Occupational Health and Safety Management System. In pursuit of an injury-free working environment, all of our employees are required to receive safety training before work commencement. We have provided safety guidelines for our employees working in our third-party manufacturers' production facilities. When safety issues are spotted, employees are required to report in a timely manner. Meanwhile, we have formulated a series of emergency plans in case of any accidents and organized fire drills on a regular basis to further reinforce employees' safety awareness.

During the Year, there were no reported work-related fatalities or injuries.

PROVIDING QUALITY PRODUCTS AND SERVICES TO CUSTOMERS

Quality Assurance

We believe that high product quality is crucial to our success in the textile industry and has helped us to build a loyal customer base. Thus, the Group attaches great emphasis on quality management and strictly complies with relevant laws and regulations, such as the Product Quality Law of the PRC and the Law of the PRC on the Protection of Consumer Rights and Interests. To maintain the high quality of our products, we have established a quality control team headed by an experienced manager in the textile industry, who is responsible for ensuring the quality standards of the raw materials, products manufactured by third-party factories at each stage of production processes as well as our end products. To ensure our products are of consistent high quality, we provide standardized technical checklists which prescribe specific technical requirements and guidance to these factories. In executing the scheduled production plan, staff of our production control team are stationed in these factories to carry out on-site inspection, give production instruction and guidance, monitor the production progresses, coordinate the day-to-day work among different factories and take immediate actions to remedy defects discovered.

In recognition of our effort in safeguarding the quality of our products, Guangdong Smart Team has obtained the certificate of ISO 9001: 2015 Quality Management System on research, design and sales of textiles. In addition, we were also accredited with the OEKO-Tex Standard 100, which guaranteed that our products meet the human-ecological requirements for baby clothing.

Research and Development

We seek to introduce new products and enhance our existing products with special functions and features from time to time by drawing on our research and development capabilities. We have a sophisticated research and development team comprising skilled technicians and engineers, and have our own physical laboratory and chemical laboratory as well as other research facilities for research and quality control. We have also established research centres with Donghua University, Toyobo Co., Ltd. and Lenzing Group, which allow us to possess the latest technology in global textile industry. By leveraging on our strong capabilities of research and development, we have been recognized as a High and New Technology Enterprise since 2016.

Customer Satisfaction

Failure to detect sub-standard products may lead to complaints from customers who may cease to place orders from us. Serious quality issues in our products could result in product recall or other adverse consequences which could materially affect our business reputation, financial conditions and results of operations. Our sales executives are responsible for liaising with our customers during the ordering stages and keeping close contact with our customers after delivery to make sure we would be informed of any quality problems. In the event that products are found to be unsatisfactory by our customers, our sales executives would communicate with them to resolve the problems.

Advertising and Labeling

We promote our products mainly through advertisements as well as participation in trade shows and industry exhibitions. The Group strictly complied with relevant laws and regulations such as the Advertising Law of the PRC and the Trade Descriptions Ordinance of Hong Kong during the Year. Meanwhile, we would verify all information regarding our products and business before publication of promotion materials or sale of products to customers so as to prevent any false, misleading or deceptive information in our promotion materials or labels on products.

PROVIDING QUALITY PRODUCTS AND SERVICES TO CUSTOMERS *(Continued)*

Protection of Customer Data and Privacy

Regarding customer information and data, the Group always handles it with the highest degree of confidentiality. We have complied with all relevant laws and regulations in this regard, such as the Personal Data (Privacy) Ordinance of Hong Kong. Our employees are prohibited from revealing or capitalizing on any confidential matters or information from our customers regardless under employment or after termination of their employment. To emphasize the significance of privacy protection, divulging confidential information to any third parties or outsiders without authorization is regarded as a major misconduct and could result in disciplinary actions.

ACHIEVING A WIN-WIN SITUATION WITH PARTNERS

Supply Chain Management

To comprehensively fulfill our environmental and social responsibility, the Group has made an effort in managing our business operation including the supply chain. As we outsource the production processes to third-party factories, we principally procure synthetic fibres and yarns from our raw materials suppliers based in Japan and the PRC. To ensure product quality, we put product quality as our first priority when selecting suppliers. We review the performance of our raw materials suppliers from time to time to ensure that their raw materials can meet our quality standards. Apart from product quality, we also consider a number of other factors such as the delivery schedule, pricing, possession of the requisite licences and certifications and the compliance to relevant industrial laws, regulations and standards.

The Group works closely and regularly with our suppliers in order to review their backgrounds and performance in respect of environmental protection and social responsibility. The Group would also consider whether they have obtained all necessary business licenses and requisite certifications in providing raw materials to us. The Group's procurement personnel are responsible for monitoring and evaluating the environmental and social performance of suppliers. In general, we aim to maintain a good relationship with suppliers with remarkable records in environmental and social performance while suppliers who fail to demonstrate a good standard or in violation of the Group's above mentioned policy may be excluded from our list of suppliers for future engagement.

Protection of Intellectual Property Rights

The success of our business depends on product innovation. In view of that, we strive to protect our know-how and our intellectual property rights and conform to the relevant laws and regulations such as the Patent Law of the PRC and the Copyright Ordinance of Hong Kong. Our intellectual property management system has been accredited with IPMS Management System Certification Certificate.

We have adopted measures and policies to protect our intellectual property rights and prevent any misuse or leakage of our intellectual properties. For instance, we have set up a specialized team to manage and handle trademarks and patents to protect our rights from infringement. Also, our employees are required to sign a non-disclosure agreement which prohibits the divulgence of any of our trade secrets to third parties.

All the third-party factories engaged with us are required to protect our intellectual property rights and keep confidential of trade secrets and shall not use or disclose them without our authorization. We have also entered into data processing agreements with those factories with stringent terms to ensure the protection of our intellectual property rights.

ACHIEVING A WIN-WIN SITUATION WITH PARTNERS *(Continued)*

Anti-corruption

Corruption could be a source of risk that weakens business stability and hampers its development. The Group adheres strictly to a high standard of business conduct which has been clearly stated in the employment contract and staff handbook, and has adopted a zero-tolerance approach towards all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement, money laundering and collusion. Disciplinary actions will be taken against any kind of misconduct or malpractice.

During the Year, we complied with all relevant legislation on anti-corruption and bribery such as the Criminal Law of the PRC and the Prevention of Bribery Ordinance of Hong Kong, and the Group was not aware of any corruption litigation against the Group or its employees.

PROTECTING OUR ENVIRONMENT

Pollution Control

As we have outsourced all the production processes to third-party factories, the environmental impacts directly caused by our operation are therefore relatively minor when compared with production-focused providers of knitted fabrics. As a responsible corporation, the Group attaches great importance to emission control in its daily operation and exerts itself to monitor the environmental performance of the third-party factories.

The Group has established an environmental policy and an environmental management system, which are unique to the Group's business context, aiming at preventing pollution and minimizing environmental impacts. The environmental management system of our subsidiary, Guangdong Smart Team, has been accredited with the internationally-recognized standard of ISO 14001:2015.

In our operation, the major source of pollutants is the combustion of vehicle fuels, of which the emission data during the Year are shown in the following table:

Air Emissions	2018
Nitrogen oxides (kg)	**6.72**
Sulphur oxides (kg)	**0.16**
Particulate matter (kg)	**0.49**

To minimize the impacts, we conduct regular vehicle inspections and maintenance such as checking tyre pressure to maintain the efficiency of our vehicles. Besides, our employees are informed to ensure engines are turned off for idling vehicles to reduce emission of pollutants.

Before entering into business relationships with third-party factories, we ensure that they have obtained the relevant environmental permits necessary for their manufacturing and have complied with relevant environmental laws and regulations in the PRC.

During the Year, we were not found to have breached any applicable laws and regulations relating to environmental protection.

PROTECTING OUR ENVIRONMENT *(Continued)*

Carbon Emission and Energy Management

The greenhouse gases (GHG) emitted during the Group's operation mainly comes from direct emission from combustion of vehicle fuels as well as indirect emission from purchased electricity, employee business travels, electricity consumption for processing fresh water and sewage, and wasted paper disposal at landfills. The following table summarizes the GHG emissions and energy consumption of the Group during the Year:

GHG Emissions and Energy Consumption	2018
GHG Emissions	
Total emission (tonnes CO_2e)	**110**
Scope 1 – Direct emissions (tonnes CO_2e)	**27**
Scope 2 – Energy indirect emissions (tonnes CO_2e)	**54**
Scope 3 – Other indirect emissions (tonnes CO_2e)	**29**
Emission intensity (tonnes CO_2e/employee)	**1.37**
Energy Consumption	
Total energy consumption (MWh)	**204**
Direct energy consumption (MWh)	**103**
Indirect energy consumption (MWh)	**101**
Consumption intensity (MWh/employee)	**2.54**

In order to minimize carbon emissions and electricity usage, the Group has adopted the following measures in the workplace:

- Reducing unnecessary lighting and use natural light as far as practicable
- Setting the air conditioning system at a minimum of 25.5℃ and clean the filters regularly to maintain its efficiency;
- Allowing our employees to dress light in hot weather and on Friday so as to reduce the use of air conditioning;
- Setting computers and other information and communication technology equipment to automatic standby mode or switch them off when not in use;
- Using telephone and video conference instead of overseas business travel when possible;
- Placing green plants in the offices.

PROTECTING OUR ENVIRONMENT *(Continued)*

Waste Management

The Group strives to handle our waste with the highest degree of carefulness and in compliance with laws, such as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes and the Waste Disposal Ordinance of Hong Kong. The non-hazardous waste generated by the Group mainly includes daily office garbage, while the hazardous waste mainly includes office supplies such as cartridge toners and light tubes. Since the aforementioned hazardous waste was only consumed in small quantity and collected by the building management company, the accurate amount of hazardous waste was unable to obtain. During the Year, the weight and intensity of non-hazardous waste were 248 tonnes and 3.10 tonnes per employee respectively.

Underpinned by the 3R principle (Reduce, Reuse and Recycle), a plenty of measures are implemented to reduce waste disposed of at landfills. For instance, we select reusable products instead of one-off office supplies whenever possible and we strive to extend the life cycle of office stationery by reusing envelopes and refilling pens. Recycling bins are placed in our offices and wastes such as discarded papers without confidential information are collected and sent to recycling companies.

Water Management

As we have outsourced the production processes, office staffs' daily water consumption accounted for the majority of water consumption. During the Year, the Group has consumed in total 858 m^3 of water and on average 10.73 m^3 per employee.

In order to reduce our water footprint, water-saving reminders are placed in the workplace and we recycle and reuse grey water for cleaning and watering plants in our offices. Also, we reduce water pressure to the lowest practicable level and fix dripping taps as soon as possible to avoid further leakage and wastage.

Packaging Materials

Since we engage third-party factories to carry out production processes, the consumption of packaging materials cannot be collected and therefore no disclosure is made in this report.

CONTRIBUTING TO OUR COMMUNITY

Apart from the pursuit of business development, as an enterprise citizen, we continued to fulfill our corporate responsibility by promoting and encouraging our employees to participate in public welfare activities during the Year.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF
ST INTERNATIONAL HOLDINGS COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ST International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 54 to 122, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' 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.

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.

Valuation of inventories

Refer to note 17 to the consolidated financial statements and the accounting policies on page 98.

The key audit matter	How the matter was addressed in our audit
The Group has carrying value of inventories amounted to approximately HK$23,603,000 as at 31 December 2018. Inventories are valued at the lower of cost or net realisable value. We have identified the valuation of inventories as a key audit matter since the allowance for inventories involved significant degree of judgements and estimates made by the management on the calculation of allowance for inventories.	Our audit procedures were designed to assess the methodology and assumptions used by management in calculating the inventory provisions. We have reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account the most recent prices achieved on sales across different products and by checking subsequent sales. We have also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

KEY AUDIT MATTERS *(Continued)*

Recoverability of trade receivables

Refer to Note 18 to the consolidated financial statements and the accounting policies on pages 98 to 100.

The key audit matter	How the matter was addressed in our audit
The Group's trade receivables amounted to HK$31,960,000 representing approximately 21% of the Group's current assets as at 31 December 2018. In general, the credit terms granted by the Group to the customers ranged between 30-90 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking expected credit losses model on impairment assessment of trade receivables. We have assessed the provision matrix used in the model by reference to the historical information together with other external available information. In particular, we have challenged the appropriateness of the default rate of various debtors that have similar loss patterns by taking into account the ageing at year end. We have also challenged the appropriateness of the assumptions used in forward-looking information by comparing credit worthiness of each debtor and macro economy and industry performance and checking historical and subsequent settlement records of and other correspondence with the customers.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE 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 of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is 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 HKSAs 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 HKSAs, 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 of the Company.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the Company's 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 the Audit Committee 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 provides the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of 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 this independent auditor's report is Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614
Hong Kong
15 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**173,461**	125,275
Cost of sales		**(109,659)**	(80,379)
Gross profit		**63,802**	44,896
Other income	8	**1,570**	1,734
Selling and distribution expenses		**(4,740)**	(2,931)
Administrative and other expenses		**(30,494)**	(17,714)
Impairment loss on trade receivables		**(98)**	–
Finance costs	9	**(343)**	(215)
Profit before tax		**29,697**	25,770
Income tax expenses	10	**(5,530)**	(5,595)
Profit for the year	11	**24,167**	20,175
Other comprehensive (expense) income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(3,987)**	3,075
Total comprehensive income for the year		**20,180**	23,250
Profit (loss) for the year attributable to:			
Owners of the Company		**24,281**	20,252
Non-controlling interests		**(114)**	(77)
		24,167	20,175
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**20,276**	23,345
Non-controlling interests		**(96)**	(95)
		20,180	23,250
Earnings per share – basic and diluted (HK$ cents)	15	**5.57**	5.63

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Plant and equipment	16	**5,979**	3,272
Deposit paid for acquisition of plant and equipment		**6,000**	–
Deferred tax asset	24	**1,742**	508
		13,721	3,780
Current assets			
Inventories	17	**23,603**	12,579
Trade and bills receivables	18	**33,319**	47,781
Deposits, prepayments and other receivables	18	**27,392**	23,715
Pledged bank deposits	20	**6,078**	6,043
Bank balances and cash	20	**61,026**	8,756
		151,418	98,874
Current liabilities			
Trade payables	21	**3,307**	9,868
Other payables and accruals	21	**5,886**	14,257
Contract liabilities	19	**7,613**	–
Amount due to a director	22	**–**	9,411
Bank borrowing	23	**5,535**	3,000
Income tax payable		**4,873**	2,785
Bank overdrafts	23	**–**	5,637
		27,214	44,958
Net current assets		**124,204**	53,916

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liability			
Deferred tax liability	24	**1,030**	1,070
NET ASSETS		**136,895**	56,626
Capital and reserves			
Share capital	25	**4,800**	–
Reserves		**132,506**	56,941
Equity attributable to owners of the Company		**137,306**	56,941
Non-controlling interests		**(411)**	(315)
Total equity		**136,895**	56,626

The consolidated financial statements on pages 54 to 122 were approved and authorised for issue by the board of directors on 15 March 2019 and are signed on its behalf by:

Mr. Wong Kai Hung Kelvin	**Mr. Hung Yuk Miu**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve (Note a) *HK$'000*	Statutory reserve (Note b) *HK$'000*	Retained earnings *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2017	–	–	335	1,807	34,008	(2,554)	33,596	(220)	33,376
Profit (loss) for the year	–	–	–	–	20,252	–	20,252	(77)	20,175
Exchange differences arising on translation of foreign operations	–	–	–	–	–	3,093	3,093	(18)	3,075
Total comprehensive income (expense) for the year	–	–	–	–	20,252	3,093	23,345	(95)	23,250
Transfer to People's Republic of China ("PRC") statutory reserve	–	–	–	3,134	(3,134)	–	–	–	–
At 31 December 2017 and 1 January 2018	–	–	335	4,941	51,126	539	56,941	(315)	56,626
Profit (loss) for the year	–	–	–	–	24,281	–	24,281	(114)	24,167
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(4,005)	(4,005)	18	(3,987)
Total comprehensive income (expense) for the year	–	–	–	–	24,281	(4,005)	20,276	(96)	20,180
Issue of shares *(note 25(iii))*	100	–	(100)	–	–	–	–	–	–
Contribution from shareholder *(note a)*	–	–	2,000	–	–	–	2,000	–	2,000
Issue of shares pursuant to placing and public offering *(note 25(v))*	1,200	68,400	–	–	–	–	69,600	–	69,600
Expenses incurred in connection with issue of new shares	–	(11,511)	–	–	–	–	(11,511)	–	(11,511)
Issue of shares by capitalisation of share premium account *(note 25(iv))*	3,500	(3,500)	–	–	–	–	–	–	–
Transfer to PRC statutory reserve	–	–	–	856	(856)	–	–	–	–
At 31 December 2018	**4,800**	**53,389**	**2,235**	**5,797**	**74,551**	**(3,466)**	**137,306**	**(411)**	**136,895**

Notes:

(a) Capital reserve

Capital reserve represents (i) the difference between the consideration paid for acquisition of non-controlling interest of Dongguan Smart Union Textiles Technology Co., Ltd. (東莞聯兆紡織科技有限公司) ("Smart Union") and the carrying amount of the non-controlling interest, (ii) the contribution from the shareholder due to a deed of waiver dated 23 April 2018 executed by the shareholder and director of the Company, Mr. Wong Kai Hung Kelvin ("Mr. Wong") and a subsidiary of the Company, Smart Team Textiles Technology Limited ("Smart Team"), pursuant to which an outstanding sum in the amount of HK$2,000,000 owed by Smart Team to Mr. Wong on 23 April 2018 was irrevocably and unconditionally waived by Mr. Wong and (iii) the difference between the nominal value of share issued to acquire Smart Team.

(b) Statutory reserve

According to the PRC Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**29,697**	25,770
Adjustments for		
Depreciation of plant and equipment	**1,092**	749
Impairment loss on trade receivables	**98**	–
Loss on written off of plant and equipment	**–**	23
Bank interest income	**(195)**	(88)
Finance costs	**343**	215
Government grants	**(1,164)**	(1,180)
Operating cash flows before movements in working capital	**29,871**	25,489
Increase in inventories	**(12,011)**	(9,888)
Decrease (increase) in trade and bills receivables	**12,884**	(24,203)
Increase in deposits, prepayments and other receivables	**(4,581)**	(10,909)
(Decrease) increase in trade payables	**(6,346)**	4,644
(Decrease) increase in other payables and accruals	**(1,089)**	10,955
Increase in contract liabilities	**906**	–
Cash generated from (used in) operations	**19,634**	(3,912)
Hong Kong income tax refund (paid)	**1,342**	(1,677)
PRC income tax paid	**(5,848)**	(1,960)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**15,128**	(7,549)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES		
Deposit paid for acquisition of plant and equipment	**(6,000)**	–
Acquisition of plant and equipment	**(4,034)**	(1,044)
Increase in pledged bank deposits	**(151)**	(57)
Interest received	**195**	88
NET CASH USED IN INVESTING ACTIVITIES	**(9,990)**	(1,013)
FINANCING ACTIVITIES		
Proceeds from issue of shares	**69,600**	–
New bank borrowing raised	**5,730**	–
Government grants received	**1,164**	1,180
Share issue expenses	**(11,511)**	–
Repayment to directors	**(7,411)**	(6,670)
Repayment of bank borrowing	**(3,000)**	–
Repayment to related company	**–**	(6)
Interest paid	**(343)**	(215)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**54,229**	(5,711)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**59,367**	(14,273)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3,119**	16,657
Effect of foreign exchange rate changes	**(1,460)**	735
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**61,026**	3,119
Represented by:		
Bank balances and cash	**61,026**	8,756
Bank overdrafts	**–**	(5,637)
	61,026	3,119

1. GENERAL INFORMATION

ST International Holdings Company Limited (the "Company") was incorporated in the Cayman Islands, under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 21 February 2017 and its shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2018.

The parent and the ultimate holding company of the Company is Cosmic Bliss Investments Limited ("Cosmic Bliss"), a company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling party is Mr. Wong Kai Hung Kelvin ("Mr. Wong").

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business of the Company in Hong Kong is Room 1006, Centre Point, 181-185 Gloucester Road, Wan Chai, Hong Kong.

The Company is an investment holding company and its principal subsidiaries are principally engaged in sales of functional knitted fabrics and apparel.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and its Hong Kong subsidiary. Renminbi ("RMB") is the functional currency of the PRC subsidiaries of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the reorganisation as described in the section headed "History, Reorganisation and Corporate Structure" in the prospectus of the Company dated 30 April 2018 (the "Prospectus"), the Company became the holding company of the companies now comprising the Group on 28 February 2018 (the "Reorganisation").

The companies now comprising the Group have been under the common control and are beneficially owned by Mr. Wong before and after the Reorganisation. Accordingly, the Reorganisation has been accounted for as if the Company had always been the holding company of the companies comprising the Group for the year ended 31 December 2017 and up to 28 February 2018.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows including the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure had been in existence for the year ended 31 December 2017 or since their respective dates of incorporation. The consolidated statement of financial position of the Group as at 31 December 2017 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REORTING STANDARDS ("HKFRSs")

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

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

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Change in accounting policies

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue.

The Group's accounting policies for its revenue streams are disclosed in detail in note 4 below.

The impact of transition of HKFRS 15 was insignificant on the retained earnings at 1 January 2018.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Note	Carrying amount previously reported at 31 December 2017 *HK$'000*	Impact on adoption of HKFRS 15 - Reclassification *HK$'000*	Carrying amount as restated at 1 January 2018 *HK$'000*
Other payables and accruals	a	14,257	(7,023)	7,234
Contract liabilities	a	–	7,023	7,023

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REORTING STANDARDS ("HKFRSs") *(Continued)*

Change in accounting policies *(Continued)*

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

Note:

(a) Receipt in advance from customers

As at 1 January 2018, the "receipt in advance" of HK$7,023,000 previously included in other payables and accruals was reclassified to contract liabilities.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

Impact on the consolidated statement of financial position at 31 December 2018

	As reported *HK$'000*	Impact of adopting HKFRS 15 *HK$'000*	Amount excluding impact of adopting HKFRS 15 *HK$'000*
Other payables and accruals	5,886	7,613	13,499
Contract liabilities	7,613	(7,613)	–

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 4 below.

Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to measure at amortised cost as were previously measured under HKAS 39.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REORTING STANDARDS ("HKFRSs") *(Continued)*

Change in accounting policies *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under HKAS 39.

Summary of effects arising from initial application of HKFRS 9

The table below summaries the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 31 December 2017 and 1 January 2018
			HK$'000
Trade and bills receivables	Loan and receivables	Amortised costs	47,781
Deposits and other receivables	Loan and receivables	Amortised costs	3,919
Pledged bank deposits	Loan and receivables	Amortised costs	6,043
Bank balances and cash	Loan and receivables	Amortised costs	8,756

All the financial liabilities have not been impacted by the application of HKFRS 9 and continue to be classified and measured on the same basis as they were under HKAS 39.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *Effective for annual periods beginning on or after a date to be determined*

The directors of the Company anticipate that, except as described below, the application of other new and amendments HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REORTING STANDARDS ("HKFRSs") *(Continued)*

Change in accounting policies *(Continued)*

HKFRS 16 Leases *(Continued)*

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$1,653,000 as disclosed in note 29(a), A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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 in the principal market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a consolidation of the above, based on all relevant facts and circumstances.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these 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.

Income and expenses of subsidiaries are included in the consolidated statements 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.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised 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 customers.

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

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; 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 goods or services.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) *(Continued)*

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from sales of goods.

Sales of goods

Revenue from sales of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

Policy applicable to the year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2017 *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Compensation income from sales of functional knitted fabrics is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits cost

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short term employee benefits

A liability recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 bases 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

The measurement of deferred tax liabilities and assets 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.

Current and deferred taxes are recognised in profit or loss.

Research and development expenditure

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured on the same basis as intangible assets acquired separately.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment 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 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 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.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered 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). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. 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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above, net of outstanding bank overdrafts.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) *(Continued)*

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, 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 (see below). 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. If, in subsequent reporting periods, 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.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

<u>Significant increase in credit risk</u>

In assessing whether the credit risk on a financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- 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;
- significant increases in credit risk on other financial instruments of the same 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 on a financial asset 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 increased 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) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- 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).

The Group considers that default has occurred when a financial asset is more than 120 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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:

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. 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 12 months 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. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

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 party.

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 instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity 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 a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities subsequently measured at amortised cots

Financial liabilities that are not 1) contingent consideration of an acquirer in a business consolidation, 2) held-for-trading, or 3) designated as at FVTPL are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Under HKAS 39 (applicable on or before 1 January 2018)

Financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable on or before 1 January 2018) *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables and deposits, pledged bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

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

Impairment of financial assets

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

For all financial assets, objective evidence of impairment could include:

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable on or before 1 January 2018) *(Continued)*

Impairment of financial assets (Continued)

For certain categories of financial assets, such as trade, bills and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity 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 Group are recognised at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable on or before 1 January 2018) *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities including trade payables, other payables and accruals, amount due to a director and bank borrowing and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

A financial asset is derecognised 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Impairment of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is overdue as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. At 31 December 2018, impairment loss on trade receivables is approximately HK$98,000.

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimated based on experience about the economic useful lives of the assets and by making reference to market prices of similar assets. The Group assesses annual residual values and the useful lives of the plant and equipment and if the expectation differs from the original estimates, such a difference may impact the depreciation in the year and the estimate will be changes in the future period.

Estimated allowance for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each Track Record Period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2018, the carrying amount of inventories was approximately HK$23,603,000 (2017: HK$12,579,000). No impairment loss has been recognised during the years ended 31 December 2018 and 2017.

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

Deferred taxes

As at 31 December 2018, the Group has unused tax losses of approximately HK$16,243,000 (2017: HK$6,790,000). As at 31 December 2018, a deferred tax asset has been recognised in respect of approximately HK$10,554,000 (2017: HK$3,074,000) of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK$5,689,000 (2017: HK$3,716,000) due to the unpredictability of future profit streams. The realisability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which a reversal takes place.

6. REVENUE

Revenue represents the amounts received and receivable from sales of goods in the normal course of business, net of sales related tax.

Set out below is the disaggregation of the Group's revenue from contracts with customers.

	2018 ***HK$'000***	2017* *HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or services lines		
– Sales of functional knitted fabrics	**156,384**	110,961
– Sales of apparel	**17,055**	12,760
– Sales of yarns	**22**	1,554
	173,461	125,275

* The amounts for the year ended 31 December 2017 were recognised under HKAS 18.

6. REVENUE *(Continued)*

Disaggregation of revenue by timing of recognition

	2018 *HK$'000*
Timing of revenue recognition	
At a point in time	**173,461**

The manufacturing contracts are with an original expected duration of less than one year. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period.

7. SEGMENT INFORMATION

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

The Group is organised into a single operating segment as sales of functional knitted fabrics and apparel primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

7. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Customer A	**61,110**	28,684
Customer B	**27,824**	N/A[1]
Customer C	**18,528**	26,254
Customer D	**N/A[1]**	13,095

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group for that period.

8. OTHER INCOME

	2018 ***HK$'000***	2017 *HK$'000*
Bank interest income	**195**	88
Government grants *(note 31)*	**1,164**	1,180
Compensation income *(note)*	**–**	219
Net foreign exchange gains	**–**	247
Sundry income	**211**	–
	1,570	1,734

Note:

For the year ended 31 December 2017, included in the other income, approximately HK$219,000 (2018: nil) of compensation income represented the gain arising from compensation received from third party factories, net of purchase costs for yarns which could not meet the Group's specifications.

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interests on:		
– Bank borrowing and overdrafts	**343**	215

10. INCOME TAX EXPENSES

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong	**–**	35
PRC Enterprise Income Tax ("EIT")	**6,804**	5,103
	6,804	5,138
Deferred taxation *(note 24)*	**(1,274)**	457
	5,530	5,595

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 qualifying corporation will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the rules and regulation of the British Virgin Islands ("BVI") and Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

One of the Group's subsidiaries established in the PRC is recognised as a High and New Technology Enterprise ("HNTE") which has been granted tax concessions by the local tax bureau and is entitled to PRC EIT at concessionary rate of 15% for starting from 1 January 2016 to 31 December 2018.

10. INCOME TAX EXPENSES *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000
Profit before tax	**29,697**	25,770
Tax at the applicable tax rate at 25% (2017: 25%)	**7,424**	6,443
Tax effect of preferential tax rate	**(5,031)**	(3,552)
Tax effect of super deduction of research and development expenses	**(769)**	(469)
Tax effect of income not taxable for tax purpose	**(14)**	(16)
Tax effect of expense not deductible for tax purposes	**3,190**	1,752
Tax effect of tax loss not recognised	**515**	124
Withholding tax on undistributed earnings of a PRC subsidiary *(note 24)*	**–**	1,000
Effect of different tax rates of subsidiaries operate in other jurisdictions	**215**	313
Income tax expense for the year	**5,530**	5,595

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% (2017: 150%) of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for relevant periods ended.

Details of the deferred taxation are set out in note 24.

11. PROFIT FOR THE YEAR

	2018 **HK$'000**	2017 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments *(note 12)*	**3,636**	2,544
Salaries, allowances and other benefits (excluding directors' emoluments)	**10,040**	7,586
Contributions to retirement benefits scheme (excluding directors' emoluments)	**595**	573
Total staff costs	**14,271**	10,703
Auditor's remuneration	**700**	102
Depreciation of plant and equipment	**1,092**	749
Expenses in relation to the listing	**10,856**	6,701
Research and development costs recognised as an expense *(note)*	**5,367**	4,581
Cost of inventories recognised as an expense	**101,181**	73,286
Operating lease rentals in respect of rented premises	**1,608**	1,110
Net foreign exchange losses (gains)	**195**	(247)
Loss on written off of plant and equipment	**–**	23

Note: The research and development expenses disclosed here excluded salaries, allowances and other benefits of approximately HK$2,901,000 (2017: HK$2,379,000), and contributions to retirement benefits scheme of approximately HK$153,000 (2017: HK$132,000) for the years ended 31 December 2018 which had been included in salaries, allowances and other benefits disclosed above.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 6 (2017: 3) directors were as follows:

	Year ended 31 December 2018				
	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Emoluments paid or payable in respect of directors' other services in connection with the management of the affairs of the Company and its subsidiary undertakings:					
Executive directors:					
Mr. Wong	–	904	–	18	922
Mr. Xi Bin	–	865	–	35	900
Mr. Hung Yuk Miu	–	1,547	–	18	1,565
	–	3,316	–	71	3,387
Emoluments paid or payable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings					
Independent non-executive directors:					
Mr. Ng Wing Heng, Henry (appointed on 23 April 2018)	83	–	–	–	83
Mr. Fong King Tat, Rick (appointed on 23 April 2018)	83	–	–	–	83
Mr. Sze Irons (appointed on 23 April 2018)	83	–	–	–	83
	249	–	–	–	249
Total	249	3,316	–	71	3,636

12. DIRECTORS' EMOLUMENTS *(Continued)*

	Year ended 31 December 2017				
	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Emoluments paid or payable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings:					
Executive directors:					
Mr. Wong	–	750	–	17	767
Mr. Xi Bin	–	783	–	29	812
Mr. Hung Yuk Miu	–	951	–	14	965
	–	2,484	–	60	2,544

Mr. Xi Bin was appointed as chief executive officer on 1 April 2017.

Mr. Xi Bin is the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

Neither the chief executive officer nor any of the directors waived any emoluments in the year ended 31 December 2018 and 2017.

No emoluments were paid by the Group to the directors of the Company as an inducement for joining the Group or as compensation for loss of office for the years ended 31 December 2018 and 2017.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2017: three) were directors and the chief executive officer of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2017: two) individuals were as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other allowances	**547**	449
Retirement benefit scheme contributions	**26**	22
	573	471

Their emoluments were within the following bands:

	Number of individuals	
	2018	2017
Nil to HK$1,000,000	**2**	2

During the years ended 31 December 2018 and 2017, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

14. DIVIDENDS

No dividend has been declared by the Company for the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period (2017: nil).

15. EARNINGS PER SHARE

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

	2018	2017
Profit for the year attributable to owners of the Company *(HK$'000)*	**24,281**	20,252
Weighted average number of ordinary shares in issue *('000)*	**435,945**	360,000
Basic earnings per share *(HK cents per share)*	**5.57**	5.63

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2018 and 2017 has been retrospectively adjusted for the effects of the Reorganisation and capitalisation issue which took place in 2018 in preparation for listing as stated in note 25.

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2018 and 2017.

16. PLANT AND EQUIPMENT

	Machineries HK$'000	Office Equipment HK$'000	Motor Vehicles HK$'000	Total HK$'000
COST				
At 1 January 2017	345	1,514	2,288	4,147
Additions for the year	696	348	–	1,044
Written off for the year	(2)	(23)	–	(25)
Exchange realignment	48	115	68	231
At 31 December 2017	1,087	1,954	2,356	5,397
Additions for the year	2,825	1,209	–	4,034
Exchange realignment	(146)	(129)	(48)	(323)
At 31 December 2018	3,766	3,034	2,308	9,108
ACCUMULATED DEPRECIATION				
At 1 January 2017	45	517	745	1,307
Charge for the year	57	333	359	749
Written off for the year	–	(2)	–	(2)
Exchange realignment	5	47	19	71
At 31 December 2017	107	895	1,123	2,125
Charge for the year	285	446	361	1,092
Exchange realignment	(15)	(55)	(18)	(88)
At 31 December 2018	377	1,286	1,466	3,129
CARRYING VALUES				
At 31 December 2018	3,389	1,748	842	5,979
At 31 December 2017	980	1,059	1,233	3,272

The above items of plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking account into their estimated residual values as follow:

Machineries	10%
Office equipment	20% – 50%
Motor vehicles	33%

17. INVENTORIES

	2018 HK$'000	2017 HK$'000
Work in progress	**14,481**	8,384
Finished goods	**9,122**	4,195
	23,603	12,579

18. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**32,058**	45,474
Bills receivables	**1,359**	2,307
	33,417	47,781
Less: allowance for impairment on trade receivables	**(98)**	–
	33,319	47,781
Other receivables	**3,193**	3,753
Prepayments	**24,047**	19,796
Deposits	**152**	166
	27,392	23,715
	60,711	71,496

At as 31 December 2018, the gross amount of trade and bills receivables arising from contracts with customers amounted to approximately HK$33,417,000 (1 January 2018: HK$47,781,000).

The Group allows credit period of 30 to 90 days to its trade customers. The Group does not hold any collateral over its trade and bills receivables. The following is an aged analysis of trade and bills receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

18. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

	2018 **HK$'000**	2017 HK$'000
Within 30 days	**8,394**	18,697
31 to 60 days	**11,063**	16,546
61 to 90 days	**7,061**	11,066
91 to 180 days	**5,712**	1,052
More than 180 days	**1,187**	420
Total	**33,417**	47,781

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	2017 HK$'000
Past due but not impaired:	
Within 30 days	13,605
31 to 60 days	11,671
61 to 90 days	420
Total	25,696

Included in the Group's trade and bills receivables balances are debtors with aggregate carrying amount of approximately and HK$25,696,000 as at 31 December 2017 which were past due as at the end of the respective reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable.

The directors of the Company consider that there has not been significant change in credit quality of trade and bills receivables and there is no recent history of default, therefore the amounts are considered recoverable.

No impairment loss has been recognised during the year ended 31 December 2017.

The Group has adopted HKFRS 9 since 1 January 2018.

The Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

18. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

The Group recognised lifetime ECL for trade and bills receivables based on the ageing of customers collectively that are not individually significant as follows:

	Expected loss rate	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Within 90 days	0.05% to 0.28%	26,518	44
More than 90 days	0.65% to 1.41%	6,899	54
Total		33,417	98

Generally, trade receivables are written-off if past due for more than 12 months and are not subject to enforcement activity.

Movements of the provision for impairment loss on trade receivables are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
At the beginning of the year	**–**	–
Impairment loss recognised for the year	**98**	–
At the end of the year	**98**	–

Included in trade and other receivables are the following amounts denominated in foreign currency other than the functional currency of relevant group entities:

	2018 ***HK$'000***	2017 *HK$'000*
United States Dollars ("USD")	**2,857**	2,112

19. CONTRACT LIABILITIES

	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000
Current		
Manufacturing arrangements	**7,613**	7,023

Contract liabilities include advances received to deliver goods.

The Group receives range from 20% to 30% of the contract values as deposits from customers when they sign the sale and purchase agreements for the sales of goods.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is approximately HK$7,023,000. There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2018, bank balances carried at prevailing market rates range from 0.01% to 0.33% per annum (2017: from 0.01% to 0.35% per annum). At 31 December 2018, the pledged bank deposits carry fixed interest rate range from 2.72% to 3.8% per annum (2017: from 0.6% to 2.3% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowing and facilities.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group and also pledged to secure short-term bank borrowing and therefore are classified as current assets.

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in foreign currencies other than the functional currency of relevant group entities:

	2018 HK$'000	2017 HK$'000
RMB	**2,994**	3,129
USD	**84**	123

21. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	31/12/2018 HK$'000	1/1/2018 HK$'000	31/12/2017 HK$'000
Trade payables	**3,307**	9,868	9,868
Other payables and accruals:			
Accrued expenses	**2,056**	1,675	1,675
Other payables	**269**	233	233
Other tax payables	**3,561**	5,326	5,326
Receipts in advance	**–**	–	7,023
	5,886	7,234	14,257
	9,193	17,102	24,125

The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period.

	2018 HK$'000	2017 HK$'000
Within 30 days	**1,489**	3,926
31 to 60 days	**1,183**	4,262
61 to 90 days	**84**	776
91 to 180 days	**112**	459
More than 180 days	**439**	445
Total	**3,307**	9,868

The credit period granted is ranging from 30 to 90 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2017 and 2018, the Group's trade and other payables that are denominated in foreign currency other than the functional currency of the relevant group entities are set out below:

	2018 HK$'000	2017 HK$'000
USD	**667**	–

22. AMOUNT DUE TO A DIRECTOR

The amount due to a director is non-trade in nature, unsecured, non-interesting bearing and has been fully settled in 2018.

23. BANK BORROWING AND BANK OVERDRAFTS

	2018 ***HK$'000***	2017 *HK$'000*
Secured bank overdrafts	**–**	5,637
Secured bank borrowing	**5,535**	3,000
	5,535	8,637

Carrying amounts of bank borrowing and bank overdrafts repayable (based on scheduled repayment dates set out in loan agreements):

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**–**	8,637
After two years but within five years	**5,535**	–
	5,535	8,637

	2018 ***HK$'000***	2017 *HK$'000*
Carrying amount of bank borrowings and bank overdrafts that is repayable within one year from the end of the reporting period	**–**	8,637
Carrying amount of bank borrowing and bank overdrafts that is not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**5,535**	–
Amounts shown under current liabilities	**5,535**	8,637

23. BANK BORROWING AND BANK OVERDRAFTS *(Continued)*

(a) The amounts of banking facilities and the utilisation at 31 December 2018 and 2017 are set out as following:

	2018 **HK$'000**	2017 HK$'000
Facilities amount	**13,000**	21,000
Utilisation		
– Secured bank overdrafts	**–**	5,637
– Secured bank borrowing	**5,535**	3,000

During the year ended 31 December 2018, the Group obtained a new borrowing in the amount of approximately HK$5,535,000. The loan carried interest at a rate of 6.65% per annum and is repayable on or before 31 July 2021. The loan was secured by personal guarantees provided by Mr. Xi Bin, the director of the Company.

As at 31 December 2017, all banking facilities were secured by pledged bank deposits and personal guarantee provided by Mr. Wong and Mr. Xi Bin, the directors of the Company.

(b) As at 31 December 2017, the bank overdrafts carried fixed interest rates ranges from 3.50% to 5.75% per annum (2018: nil).

As at 31 December 2018, interest-bearing borrowing carried interest at variable market interest rates, which is based on PRC the Loan Prime Rate plus 1.9% per annum. (2017: Hong Kong Inter-bank offered rate plus 2.2% per annum) as follows:

	2018	2017
Fixed-rate bank overdrafts	**–**	3.50% to 5.75%
Variable-rate borrowing	**6.65%**	3.11% to 3.64%

24. DEFERRED TAX LIABILITY

The following is the analysis of the deferred tax (asset) liability:

	2018 **HK$'000**	2017 HK$'000
Deferred tax asset	**(1,742)**	(508)
Deferred tax liability	**1,030**	1,070
	(712)	562

24. DEFERRED TAX LIABILITY *(Continued)*

The following is the major deferred tax (asset) liability recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Withholding tax on undistributed earnings of a PRC subsidiary *HK$'000*	Total *HK$'000*
At 1 January 2017	105	–	–	105
(Credited) charged to profit or loss *(note 10)*	(35)	(508)	1,000	457
At 31 December 2017	70	(508)	1,000	562
(Credited) charged to profit or loss *(note 10)*	(40)	(1,234)	–	(1,274)
At 31 December 2018	**30**	**(1,742)**	**1,000**	**(712)**

As at 31 December 2018, the Group has unused tax losses of approximately HK$16,243,000 (2017: HK$6,790,000). As at 31 December 2018, a deferred tax asset of approximately HK$1,742,000 (2017: HK$508,000) has been recognised in respect of approximately HK$10,554,000 (2017: HK$3,074,000) of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK$5,689,000 (2017: HK$3,716,000) due to the unpredictability of future profit streams.

Included in unrecognised tax losses are loss of the Group of approximately HK$187,000, HK$2,885,000, HK$473,000 and HK$2,144,000 which will be expired in 2020, 2021, 2022 and 2023 respectively. (2017: HK$196,000, HK$3,024,000 and HK$496,000 will be expired in 2020, 2021 and 2022).

Under the EIT law, withholding tax of 5% is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Deferred taxation has been provided in respect of the temporary differences associated with certain undistributed profit earned by a PRC subsidiary at the applicable withholding tax of 10%.

At 31 December 2018, the aggregate amount of temporary difference associated with undistributed earnings of the subsidiary for which deferred tax liability has not been recognised amounted to approximately HK$63,864,000 (2017: HK$24,850,000). No deferred tax liability has been recognised in respect of these undistributed earnings because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

25. SHARE CAPITAL

The share capital as at 31 December 2017 represented the share capital of the Company. The share capital of the Group as at 31 December 2018 represented the share capital of the Company.

	Number of shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised		
As at 21 February 2017 (date of incorporation), 31 December 2017 and 1 January 2018 *(note i)*	10,000	100
Increase on 23 April 2018 *(note ii)*	9,990,000	99,900
As at 31 December 2018	**10,000,000**	**100,000**
Issued and fully paid		
As at 21 February 2017 (date of incorporation) and 1 January 2018 *(note i)*	–	–
Issue and allocated on 28 February 2018 *(note iii)*	10,000	100
Issue by capitalisation of share premium account on 15 May 2018 *(note iv)*	350,000	3,500
Issue pursuant to placing and public offer *(note v)*	120,000	1,200
As at 31 December 2018	**480,000**	**4,800**

Notes:

(i) On 21 February 2017 (date of incorporation), the Company was incorporated in the Cayman Islands with an authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each. At the date of incorporation, one share was allotted and issued nil paid to the subscriber, which was then transferred to Cosmic Bliss at nil consideration on 28 February 2018.

(ii) On 23 April 2018, pursuant to the resolution of the sole shareholder of the Company, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of additional 9,990,000,000 new ordinary shares of HK$0.01 each. The new shares shall *rank pari passu* in all respects with the existing issued shares.

(iii) On 28 February 2018, the Company acquired the entire interests in Smart Team, a wholly-owned subsidiary incorporated in Hong Kong through World Vantage Investments Limited ("World Vantage"), in consideration which was satisfied by the Company (i) crediting as fully paid, the one nil-paid share held by Cosmic Bliss and (ii) allotting and issuing, credited as fully paid, 9,999,999 shares of HK$0.01 each to Cosmic Bliss, which is directed by Mr. Wong.

25. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(iv) On 23 April 2018, a resolution was passed by the sole shareholder of the Company to approve: (i) the allotment and issue of 120,000,000 ordinary shares of HK$0.01 each to the public by way of public offer and placing; and (ii) upon the share premium account of the Company being credited as a result of the issue of the said 120,000,000 ordinary shares, 350,000,000 ordinary shares of HK$0.01 each be allotted and issued to the then sole shareholder of the Company by way of capitalisation ("Capitalisation Issue") of HK$3,500,000 from the share premium account.

(v) On 15 May 2018, the Company issued a total of 120,000,000 ordinary shares of HK$0.01 each at a price of HK$0.58 per share. Of the gross proceeds of HK$69,600,000, HK$1,200,000 representing the par value of such 120,000,000 ordinary shares was credited to the Company's share capital, and HK$68,400,000, before the share issue expenses, was credited to the share premium account. The Company's total number of issued ordinary shares was increased to 480,000,000 shares upon completion of placing, the public offer and the Capitalisation Issue.

(vi) All shares issued during the year ended 31 December 2018 rank pari passu in all respects among themselves and with the then existing shares.

26. RETIREMENT BENEFITS PLAN

Hong Kong

The Group operates the MPF under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Under the MPF, the Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

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

PRC

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees, subject to a certain ceiling. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

For the year ended 31 December 2018, the total contribution to defined contribution retirement benefits scheme charged to the consolidated statements of profit or loss and other comprehensive income amounted to approximately HK$666,000 (2017: HK$633,000).

27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within 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 balances. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of bank borrowing, bank overdrafts pledged bank deposits, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues. The directors of the Company will also consider the raise of additional borrowings as additional capital.

The directors of the Company also endeavour to ensure the steady and reliable cash flows from the normal business operation.

28. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	At 31 December	
	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Financial assets at amortised cost/loans and receivables (including bank balances and cash)	**103,768**	66,499
Financial liabilities		
At amortised cost	**11,167**	29,824

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and accruals, bank borrowing and bank overdrafts.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (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

(i) Currency risk

The Group's operational activities are mainly denominated in RMB. The Group is exposed to foreign currency risk primarily arising from purchase of goods by foreign currencies and bank deposits denominated in foreign currencies other than the functional currency of relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than the functional currencies of relevant group entities at the end of the reporting periods are as follows:

	Asset		Liability	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**2,994**	3,129	–	–
USD	**2,941**	2,235	**667**	–

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% changes in HK$ against RMB except for USD. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit before tax where HK$ weakening against RMB. For a 5% strengthening against the respective currency, there would be an equal and opposite impact on the profit before tax.

The management considered that the currency between HK$ and USD is pegged under linked-exchange rate system, the effect of change is not significant, accordingly, it is not included in this sensitivity analysis.

	2018 ***HK$'000***	2017 *HK$'000*
Increase in profit before tax	**150**	156

The Group's sensitivity to foreign currency was mainly due to outstanding RMB receivables at the end of reporting periods.

28. 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 pledged bank deposits, bank balances (note 20), bank borrowing (note 23) and bank overdrafts (note 23). The Group currently does not have any interest rate hedging policy. It is the Group's policy to keep pledged bank deposits, bank balances and bank borrowing at floating rate as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on bank balances, variable-rate bank borrowing.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding were outstanding for the whole year. A 50 basis point 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.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK$283,000 (2017: HK$24,000) for the year ended 31 December 2018. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and borrowing.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from trade and bills receivables, deposits and other receivables, pledged bank deposits and bank balances. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

For deposits and other receivables, pledged bank deposits and bank balances, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered deposits and other receivables to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee 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's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	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

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

31 December 2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
			HK$'000	*HK$'000*	*HK$'000*
Trade and bills receivables	N/A	Lifetime ECL	33,417	(98)	33,319
Deposits and other receivables	Performing	12-month ECL	3,345	–	3,345
Pledged bank deposits	(Note)	12-month ECL	6,078	–	6,078
Bank balances and cash	(Note)	12-month ECL	61,026	–	61,026

Note: The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 99% and 98% of the total trade receivables as at 31 December 2018 and 2017.

As at 31 December 2018 and 2017, the Group has concentration of credit risk as 28% and 9% of the total trade and bills receivables was due from the Group's largest customer while 57% and 49% of the total trade and bills receivables was due from the Group's top five largest customers, respectively.

28. 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 bank balances and cash 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 borrowing and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. 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. Specifically, bank borrowing with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

Liquidity risk tables

	On demand or within one year	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2018			
Trade payables	3,307	3,307	3,307
Other payables and accruals	2,325	2,325	2,325
Bank borrowing	5,903	5,903	5,535
	11,535	11,535	11,167

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity risk tables (Continued)

	On demand or within one year	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2017			
Trade payables	9,868	9,868	9,868
Other payables and accruals	1,908	1,908	1,908
Amount due to a director	9,411	9,411	9,411
Bank borrowing	3,006	3,006	3,000
Bank overdrafts	5,907	5,907	5,637
	30,100	30,100	29,824

Bank borrowing with a repayment on demand clause are included in the "on demand or within one year" time band in the above maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of this bank borrowing amounted to approximately HK$5,535,000 (2017: HK$3,000,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowing will be repaid in accordance with the scheduled repayment date set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to approximately HK$6,478,000 (2017: HK$3,006,000).

29. COMMITMENTS

(a) Operating leases commitment

The Group as lessee

The Group leases its offices under operating lease arrangements. Leases are negotiated for lease terms of one to three years. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**1,006**	1,142
In the second to fifth year (inclusive)	**647**	1,261
	1,653	2,403

(b) Capital Commitment

As at 31 December 2018, the Group has the following capital commitment in respect of acquisition of plant and equipment:

	2018	2017
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**14,000**	–

30. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018 and 2017, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship with the Group
Mr. Wong	Director and Controlling Shareholder of the Group
Mr. Xi Bin	Director of the Company
Zhongshan Da Chong Elastic Thread Factory Ltd. （中山市大涌線廠有限公司）*(note)*	Owned as to 15% by Mr. Wong and as to 85% collectively by the close family members of Mr. Wong

Note: The English translation of the name is for reference only. The official name of this entity is in Chinese.

30. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Save as disclosed elsewhere in the consolidated financial statements, during the year ended 31 December 2018 and 2017, the Group has entered into transactions with related parties as follows:

Related party	Nature of transaction	2018 HK$'000	2017 HK$'000
Zhongshan Da Chong Elastic Thread Factory Ltd.	Purchase of yarns	322	–

The above transaction was conducted at terms determined on a basis mutually agreed with the Group and the related party.

(b) Banking facilities

Mr. Xi Bin, the director of the Company, has provided personal guarantee for the bank borrowings to the Group for the year ended 31 December 2018 as disclosed in note 23.

Mr. Wong and Mr. Xi Bin, the directors of the Company, have provided limited personal guarantee of HK$21,000,000 for the grant of the bank facilities to the Group for the year ended 31 December 2017 as disclosed in note 23.

(c) Compensation to key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors are set out in note 12 to the consolidated financial statements.

31. GOVERNMENT GRANTS

Government grants of HK$1,164,000 have been received towards research and development costs for the years ended 31 December 2018 (2017: approximately HK$1,180,000). The amounts have been included in other income for the year. There are no unfulfilled conditions or contingencies related to these grants.

32. SUBSIDIARIES OF THE GROUP

Name of subsidiaries	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group 31 December 2018	2017	Principal activities
World Vantage	The BVI 28 November 2016	The BVI	USD1	**100%**	N/A	Investment holdings
Smart Team	Hong Kong 4 October 2011	Hong Kong	HK$10	**100%**	100%	Sales of functional fibres and yarns
Guangdong Smart Team Textiles Technology Co., Ltd.* ("Guangdong Smart Team") 廣東兆天紡織科技有限公司	PRC 29 May 2013	PRC	RMB10,000,000	**100%**	100%	Sales of functional knitted fabric
Smart Union	PRC 16 October 2014	PRC	RMB1,000,000	**100%**	100%	Sales of functional knitted fabric
Magic Team (Beijing) International Fashion Design Co., Ltd.* ("Magic Team") 幻天(北京)國際服裝設計有限公司	PRC 16 July 2015	PRC	RMB500,000	**70%**	70%	Design and sales of apparel

* The English name is for identification only. The official name of the entity is in Chinese.

None of subsidiaries had issued any debt securities during both years or at the end of both years.

33. MAJOR NON-CASH TRANSACTION

The contribution from the shareholder due to a deed of waiver dated 23 April 2018 executed by the shareholder and director of the Company, Mr. Wong and a subsidiary of the Company, Smart Team pursuant to which an outstanding sum in the amount of HK$2,000,000 owed by Smart Team to Mr. Wong was irrevocably and unconditionally waived by Mr. Wong.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amount due to a director *HK$'000*	Bank Borrowing *HK$'000*	Amount due to a related company *HK$'000*	Total *HK$'000*
At 1 January 2017	16,000	3,000	6	19,006
Financing cash flows	(6,670)	–	(6)	(6,676)
Non-cash changes				
Foreign exchange movement	81	–	–	81
At 31 December 2017	**9,411**	**3,000**	**–**	**12,411**
At 1 January 2018	9,411	3,000	–	12,411
Financing cash flows	(7,411)	2,730	–	(4,681)
Non-cash changes				
Foreign exchange movement	–	(195)	–	(195)
Capital contribution *(note 33)*	(2,000)	–	–	(2,000)
At 31 December 2018	**–**	**5,535**	**–**	**5,535**

35. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment in a subsidiary		**100**	–
Current assets			
Amount due from a subsidiary	*(i)*	**32,658**	–
Bank balances and cash		**21,167**	–
NET ASSETS		**53,925**	–
Capital and reserves			
Share capital	*25*	**4,800**	–
Reserves	*(ii)*	**49,125**	–
Total equity		**53,925**	–

Notes:

(i) The amount due from a subsidiary is unsecured, non-interest bearing and repayable on demand. The directors of the Company expect repayments from subsidiary within next twelve months from the end of the reporting period.

(ii) Movements in reserves

	Share premium HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–	–	–
Loss for the year	–	(4,264)	(4,264)
Total comprehensive expense for the year	–	(4,264)	(4,264)
Issue of shares pursuant to placing and public offering	(3,500)	–	(3,500)
Issue of shares by capitalisation of share premium account	68,400	–	68,400
Expenses incurred in connection with issue of new shares	(11,511)	–	(11,511)
At 31 December 2018	53,389	(4,264)	49,125