Reach New Holdings Limited
新 達 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8471

Annual Report

2018

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "Directors") of Reach New Holdings Limited (the "Company") 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. Lam Kai Yuen *(Chief executive officer)*
Mr. Lam Kai Cheong

Non-executive Director

Mr. Lam Cheung Chuen *(Chairman)*

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew
Mrs. So Chan Wai Hang
Mr. Ho Yuk Hay

AUDIT COMMITTEE

Mr. Ho Yuk Hay *(Chairman)*
Mr. Moy Yee Wo, Matthew
Mrs. So Chan Wai Hang

NOMINATION COMMITTEE

Mr. Moy Yee Wo, Matthew *(Chairman)*
Mrs. So Chan Wai Hang
Mr. Ho Yuk Hay

REMUNERATION COMMITTEE

Mrs. So Chan Wai Hang *(Chairlady)*
Mr. Moy Yee Wo, Matthew
Mr. Ho Yuk Hay

REGISTERED OFFICE

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Sun Tin Lun Industrial Centre
No. 6 Taihao Road
Sandong Digital Industrial Park
Sandong Town, Huizhou City
Guangdong Province, PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of China, Huizhou Industrial Park Branch
Industrial and Commercial Bank of China

COMPANY SECRETARY

Mr. Chan Fei Fei *(Certified Public Accountant)*

COMPLIANCE OFFICER

Mr. Lam Kai Yuen

AUTHORISED REPRESENTATIVES

Mr. Lam Kai Yuen
Mr. Chan Fei Fei *(Certified Public Accountant)*

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Alliance Capital Partners Limited

COMPANY'S WEBSITE

www.sthl.com.hk
(information of this website does not form part of this report)

STOCK CODE

8471

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Reach New Holdings Limited (the "Company", and together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Company for the year ended 31 December 2018.

The PRC garment accessories market has been facing numerous challenges during 2018. Our business was inevitably affected by the keen price competition in the market and the pressure of increasing operating costs especially the labour costs and material costs. During 2018, the Group recorded revenue of approximately RMB98.9 million, representing a slight decrease of approximately 3.8% as compared to that of last year. While the Group's gross profit for 2018 was approximately RMB29.3 million, representing a decrease of approximately 18.5% as compared to that of last year.

With the rich industry experience and expertise of our Directors and management, we managed the Group's operations with the best effort to alleviate the impact from those challenges in the market.

In view of the rapid changes in the PRC garment accessory industry, we will carefully and regularly evaluate the market conditions for the Group to execute our implementation plan set out in the section headed "Future Plans and Use of Our Proceeds" of our prospectus dated 30 June 2017. Meanwhile, in order to deal with the challenging market conditions, the Group will continue to undertake cost control measures and broaden customer base and product offerings. We will endeavor to maintain our growth in our comprehensive labelling solution services, production management and customer services and enhance our overall competitiveness and market share.

Though we foresee that the coming years should continue to be challenging for the garment accessory market, it is also a relatively stable market and expected to keep steady growth in the coming years. We are optimistic towards our business and shall continue to capture market opportunities so as to achieve a sustainable business growth and long-term benefits for our shareholders.

Finally, on behalf of the Board and the management, I wish to extend my sincere appreciation to all of our staff for their tireless efforts, diligence and contribution during 2018, and express my utmost gratitude to all shareholders, investors, customers, suppliers and business partners for their continued and valuable support and trust to the Group.

REACH NEW HOLDINGS LIMITED
LAM CHEUNG CHUEN
Chairman and non-executive Director

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. The Group mainly engages in the production of three types of products, which are (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). The Group also sources and sells other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products, to the customers in the PRC. The Group's customers include (i) garment brand companies, (ii) sourcing companies designated by garment brand companies and (iii) garment manufacturers in the PRC.

The successful Listing on 21 July 2017 (the "Listing Date") by way of share offer was a milestone for the Group in improving capital strength and corporate governance as well as enhancing its competitive edge.

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will continue to be affected by the development of the garment accessory market in the PRC as well as factors affecting the labour costs and material costs. The Directors are of the view that further development of garment market in the PRC, shortening of garment updating cycle and the multifunction of labels remains to be the key driver for the growth of the PRC garment accessories industry.

With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to pursue the following key business strategies: (i) further developing the garment accessory business of the Group by making use of additional financial resources available from the Listing on GEM on 21 July 2017, which allows the Group to upgrade the production facilities of the Group and digital printing technology; (ii) developing the capability of applying RFID technology to the products of the Group; (iii) enhancing the heat transfer printing production facilities; (iv) upgrading the information technology systems and (v) expanding the sales and marketing department.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB98.9 million, a decrease of approximately 3.8% comparing with that of approximately RMB102.8 million for the year ended 31 December 2017. A breakdown on revenue of the Group by product types for 2018 and 2017 is summarised as below:

	For the year ended 31 December			
Product types	**2018**		2017	
	RMB'000	**%**	RMB'000	%
Printed products	**43,821**	**44.3**	47,461	46.2
Woven labels	**21,461**	**21.7**	26,190	25.5
Printed labels	**24,238**	**24.5**	23,847	23.2
Others (note)	**9,419**	**9.5**	5,309	5.1
	98,939	**100.0**	102,807	100.0

Note: Others mainly include tapes, string locks, leather badge, buttons and metal products, etc..

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue of printed products decreased by approximately 7.7% for the year ended 31 December 2018 as comparing with that of the previous year. The revenue of woven label decreased by approximately 18.1% for the year ended 31 December 2018 as compared to the previous year. The aforesaid decrease in revenue was principally due to the decrease in sales of both printing products and woven label which caused by the cost reduction measures taken by the Group's customers. However, the revenue of other products increased by approximately 77.4% for the year ended 31 December 2018 as comparing with that of previous year. The Group will put more resources to expand the sales of printed products, woven labels and printed labels in order to enhance its profitability.

Cost of Sales and gross profit

During the year ended 31 December 2018, the Group's gross profit decreased by approximately 18.5% from approximately RMB36.0 million for the year ended 31 December 2017 to approximately RMB29.3 million for the year ended 31 December 2018. The Group's cost of sales primarily consists of material costs, direct labour costs, subcontracting costs, rental and rates, depreciation on machinery and utilities. During the year ended 31 December 2018, despite decrease of revenue, the material costs increased by approximately RMB4.3 million principally due to the increase in unit price of material cost such as paper and yarn. As a result, the Group's gross profit margin decreased from approximately 35.0% for the year ended 31 December 2017 to approximately 29.6% for the year ended 31 December 2018.

Other income, gains and losses

During the year ended 31 December 2018, the Group recorded an other income of RMB1.3 million comparing with an other loss of RMB0.3 million for the year ended 31 December 2017.

Distribution and selling expenses

Distribution and selling expenses increased to approximately RMB5.0 million for the year ended 31 December 2018 from approximately RMB4.5 million for the year ended 31 December 2017, which was mainly due to the increase in staff cost by adding new headcounts for sales department.

Administrative expenses

Administrative expenses increased to approximately RMB26.5 million for the year ended 31 December 2018 from approximately RMB23.2 million for the year ended 31 December 2017, which was mainly due to increase in directors' fee and staff costs incurred after the Listing.

Listing expenses

During the year ended 31 December 2017, the Group recognised non-recurring listing expenses of approximately RMB11.0 million as expenses in connection with the Listing.

Income Tax expense

Income tax expense of the Group decreased from approximately RMB3.5 million for the year ended 31 December 2017 to approximately RMB1.9 million for the year ended 31 December 2018. The decrease was mainly due to the decrease in profit before tax for the PRC subsidiaries.

Loss for the year

As a result of the foregoing, the loss for the year ended 31 December 2018 amounted to approximately RMB2.8 million, comparing with loss of approximately RMB6.5 million for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had total assets of approximately RMB82.4 million (31 December 2017: approximately RMB89.9 million), which was financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately RMB10.6 million (2017: approximately RMB15.4 million) and approximately RMB71.8 million (31 December 2017: approximately RMB74.5 million), respectively.

The Group maintained sufficient working capital as at 31 December 2018 with bank balances and cash of approximately RMB41.7 million (31 December 2017: approximately RMB44.6 million). The Board of Directors will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

GEARING RATIO

The gearing ratio of the Group as at 31 December 2018 was nil (31 December 2017: nil) as the Group had no outstanding loans and borrowings nor bank overdrafts as at 31 December 2018.

TREASURY POLICIES

The Group has adopted a prudence financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. The Group strives to reduce exposure to credit risk by performance ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not pledge any assets (31 December 2017: nil) as securities for any facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The business operations of the Group's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. As at 31 December 2018, the Group's cash and bank deposits, were denominated in RMB and HKD. Any significant exchange rate fluctuations of HKD against RMB as the functional currency may have a financial impact to the Group.

As at 31 December 2018, the Directors considered the Group's foreign exchange risk to be insignificant. During the year ended 31 December 2018, the Group did not use any financial instruments for hedging purposes.

CAPITAL STRUCTURE

The Shares were successfully listed on GEM of the Stock Exchange on 21 July 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group comprises ordinary Shares only.

As at 31 December 2018, the Company's issued share capital was HK$8,000,000 and the number of its issued ordinary Shares was 800,000,000 of HK$0.01 each.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

No dividend in respect of the year ended 31 December 2018 were declared and approved by the directors.

During the year ended 31 December 2017, special dividends in respect of the year ended 31 December 2016 of HK$80,000 (approximately RMB70,880) per ordinary share, in aggregate of HK$8,000,000 (approximately RMB7,137,000) were declared and approved by the directors.

COMMITMENTS

The operating lease commitments of the Group were primarily related to the leases of its premises for factory and office. The Group's operating lease commitments amounted to approximately RMB2.8 million as at 31 December 2018 (31 December 2017: RMB4.3 million).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 5 to the consolidated financial statements of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 June 2017 (the "**Prospectus**") and this report, the Group did not have any plan for material investments or capital assets as of 31 December 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the financial year ended 31 December 2018, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

EMPLOYMENTS AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 302 employees (31 December 2017: 328 employees) in mainland China and Hong Kong. The staff costs, including Directors' emoluments, of the Group were approximately RMB33.3 million for the year ended 31 December 2018 (2017: approximately RMB27.4 million). Directors' remuneration for the year ended 31 December 2018 amounted to approximately RMB3.3 million (2017: approximately RMB2.6 million) which included remuneration of the independent non-executive Directors for a total amount of approximately RMB0.5 million (2017: RMB0.2 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, discretionary bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual contribution.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the year ended 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's key risk exposure are summarised as follows:

(i) The Group has not entered into long-term contracts with the customers of the Group and it is difficult for the Group to forecast future order quantities;

(ii) Increases in the prices of raw materials may materially and adversely affect the Group's business, financial condition and results of operations;

(iii) The Group may experience a shortage of labour or our labour costs may continue to increase;

(iv) The Group faces intense competition in the garment accessories industry in the PRC;

(v) The Group may lose its customers if its customers move their factories from the PRC;

(vi) The Group may exposed to environmental liabilities;

(vii) The Group may be subject to potential labour disputes and labour strikes.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

KEY PERFORMANCE INDICATORS

The key financial performance indicators of the Group for the year ended 31 December 2018 is set out in the section headed "Four Years' Financial Summary" of the annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's operations are subject to certain environment requirements pursuant to the laws in the PRC, including primarily those in relation to prevention and reduction of pollution, water pollution control and waste disposal control.

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to promote efficient use of resources and adopting green technologies for emission reduction. For instance, the Group seeks to replace the equipment by the environmental friendly machines in order to minimise overall exhaust emission.

For further information in relation to the environmental policies and performance of the Group, please refer to the section headed "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT" of the annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group maintains good relationship with its customers. The sales personnel and merchandisers make regular phone calls to the customers and visit them overseas periodically. If there is any complaint from customers, it will be reported to the management and immediate remedial action will be taken.

The Group also maintains a good relationship with its suppliers. During the year ended 31 December 2018, no complaint was received from the suppliers and there was no disputed debts or unsettled debts and all the debts are settled on or before due dates or a latest date as mutually agreed.

During the year ended 31 December 2018, there was no dispute on salary payments and all accrued remunerations were settled on or before their respective due dates, as stipulated under individual employee's employment contract. The Group also ensures that all the employees are reasonably remunerated by regular review the policies on salary increment, promotion, bonus, allowances and all other related benefits.

In view of the above and as at the date of the annual report, there is no circumstance or any event which will have a significant impact on the Group's business and on which the Group's success depends.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a wholly owned subsidiary of the Group and an independent third party established a company in the PRC, namely, 安滿新達(上海)服裝有限公司, of which the Group holds 10% equity interest for investment purpose. The registered capital of 安滿新達(上海)服裝有限公司 to be contributed by the Group is RMB1.0 million. 安滿新達(上海)服裝有限公司 will be engaged in the business of garments, garments related products and accessories trading in the PRC.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 December 2018 is set out below:

Business objectives	Actual business progress up to 31 December 2018
Upgrading production facilities and digital printing technology	The Group will upgrade the production, facilities and digital printing technology according to the implementation plan as set out in the Prospectus.
Developing the capability of applying RFID technology to the products of the Group	The Group will develop the capability of applying RFID technology to the products of the Group according to the implementation plan as set out in the Prospectus.
Enhancing the heat transfer printing production facilities	The Group has enhanced its heat transfer printing production facilities by acquiring certain relevant machines and hiring additional staff for heat transfer printing production.
Upgrading the information technology system	The Group will upgrade the information technology system according to the implementation plan as set out in the Prospectus.
Expanding the sales and marketing department	The Group will expand the sales and marketing departments according to the implementation plan as set out in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds from the Listing, after deducting listing-related expenses, were approximately HK$37.6 million. After the Listing, a part of these proceeds have been applied for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

An analysis of the planned usage of net proceeds up to 31 December 2018 as stated in the Prospectus and the actual utilisation of the net proceeds from the Listing and up to 31 December 2018 is set out below:

Use of net proceeds	**Total planned amount to be used**	**Planned use of proceed up to 31 December 2018**	**Actual amount utilized up to 31 December 2018**	**Actual balance as at 31 December 2018**
	HK$'million	HK$'million	HK$'million	HK$'million
Upgrading our production facilities and digital printing technology	17.0	10.5	1.8	15.2
Developing the capability of applying RFID technology to our products	3.0	1.5	0.5	2.5
Enhancing our heat transfer printing production facilities	6.0	5.0	4.1	1.9
Upgrading our information technology systems	5.3	5.3	1.6	3.7
Expansion on our sales and marketing department	3.0	1	0.3	2.7
General working capital	3.3	–	1.2	2.1
Total	37.6	23.3	9.5	28.1

Actual amount of use of proceeds was lower as compared to the planned amount of use of proceeds which was mainly attributable to a longer time is needed for the Directors to identify and to compare the price and specifications of suitable machines, with application of digital printing technology and RFID technology and heat transfer production where the upgrading and developing of production lines are scheduled to be carried out in 2019.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

All the unutilised balances of the net proceeds have been placed in licensed banks in Hong Kong or China as at 31 December 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Chairman and non-executive Director

Mr. Lam Cheung Chuen (林長泉先生), aged 65

Mr. Lam is a founder of STL Garment Accessories and STL Apparel Accessories. He is one of the Controlling Shareholders of the Company. He is the father of Mr. Gabi Lam and Mr. Jeffrey Lam, the executive Directors. He was appointed as the Director on 22 January 2016 and was re-designated as the non-executive Director on 26 January 2017. He also serves as the chairman of the Board. He is responsible for overseeing the overall corporate development and strategic planning of the Group.

Mr. Lam completed his primary school education in the PRC in July 1966 and was conferred Honorary University Fellowship of Hong Kong Baptist University in September 2015. Mr. Lam has over 25 years of experience in the garment accessories manufacturing industry. Since the establishment of STL Garment Accessories in December 2001 and until Mr. Gabi Lam joined in March 2006 and took up the management of the Group in August 2006, Mr. Lam had overseen the day-to-day management of STL Garment Accessories. Mr. Lam currently serves as a director of all of the subsidiaries of Company, namely New Forest, Smart Trend, STL Garment Accessories and STL Apparel Accessories.

Mr. Lam has been an independent non-executive director of Ten Pao Group Holdings Limited (Stock code: 1979) since November 2015. Mr. Lam was a special committee member of the 11th session of and is a member of the 12th session of Huizhou City Committee of Guangdong Province of the Chinese People's Political Consultative Conference (中國人民政治協商會議廣東省惠州市委員會).

Mr. Lam holds a number of social titles including the president of the 6th council of Huizhou City Huicheng District Foreign Investment Enterprise Association (惠州市惠城區外商投資企業協會), the vice president of the 6th council of Huizhou City Foreign Investment Enterprise Association (惠州市外商投資企業協會), a chairman of the Huizhou Division of the Federation of Hong Kong Industries of Pearl River Delta Council* (香港工業總會珠三角工業協會), the director of the Hong Kong Shine Tak Foundation (香港善德基金會) and the permanent honorary chairman of Hong Kong Baptist University Foundation (香港浸會大學基金).

Executive Directors

Mr. Lam Kai Yuen (林啟源先生), aged 35

Mr. Gabi Lam was appointed as the Director on 22 January 2016 and was re-designated as the executive Director on 26 January 2017. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of the Group's operations.

Mr. Gabi Lam obtained a bachelor's degree of business in management with distinction from the Queensland University of Technology in October 2004. He then obtained a master's degree of business in entrepreneurship from the University of Queensland in December 2005. Mr. Gabi Lam has over 11 years of experience in the garment accessories manufacturing industry since he joined the Group in March 2006. He was then appointed as the general manager of STL Garment Accessories and STL Apparel Accessories in August 2006, being responsible for overseeing the factory operations of these companies, and gradually took up the management of the Group from Mr. Lam.

Mr. Gabi Lam currently serves as a director of all of the subsidiaries of the Company, namely New Forest, Smart Trend, STL Garment Accessories and STL Apparel Accessories. He is also the chief executive officer of the Group. Mr. Gabi Lam is the son of Mr. Lam and the elder brother of Mr. Jeffrey Lam.

* *for identification purpose only*

Mr. Lam Kai Cheong (林啟昌先生), aged 29

Mr. Jeffrey Lam was appointed as the Director on 22 January 2016 and was re-designated as the executive Director on 26 January 2017. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of the Group's operations.

Mr. Jeffrey Lam graduated from the University of Bath with a bachelor's degree of science in accounting and finance in June 2012. Mr. Jeffrey Lam has around 5 years of experience in the garment accessories manufacturing industry. He was appointed as director of STL Apparel Accessories in April 2007 and joined STL Garment Accessories in August 2012 as general manager assistant, assisting Mr. Gabi Lam in overseeing the factory operations of these companies.

Mr. Jeffrey Lam currently serves as a director of three subsidiaries of the Company, namely Smart Trend, STL Garment Accessories and STL Apparel Accessories. He is also the accounting manager of Smart Trend. He is the son of Mr. Lam and the younger brother of Mr. Gabi Lam.

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew (梅以和先生), aged 40

Mr. Moy Yee Wo, Matthew was appointed as the independent non-executive Director on 24 June 2017. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee.

Mr. Moy graduated from the Hong Kong University of Science and Technology with a bachelor's degree of business administration in accounting in November 2001 and a master's degree of business administration in April 2008. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since July 2005.

Mr. Moy has over 11 years of experience in various sections of the finance industry including audit, corporate finance and asset management. Prior to joining the Group, Mr. Moy worked for Deloitte Touche Tohmatsu from September 2001 to July 2006, and his last position held was senior accountant in the audit department. He then worked for UBS Securities Co. Limited as an associate from June 2008 to October 2008, and participated in a telecommunication restructuring project. From October 2008 to April 2009, he worked for Business Development Asia (HK) Limited as an associate and participated in various merger and acquisition transactions. He also worked as a type 9 (asset management) licensed representative in VL Asset Management Limited from July 2011 to August 2012, managing an equity portfolio. From August 2012 to January 2019, he served as the chief financial officer and company secretary of China Silver Group Limited, a company listed on the Stock Exchange (stock code: 815). Since 12 February 2019, he has been the chief financial officer and company secretary of WE Solutions Limited, a company listed on the Stock Exchange (stock code: 860). Since 22 February 2017, Mr. Moy has also been an independent non-executive director of Chi Ho Development Holdings Limited, a company listed on the Stock Exchange (stock code: 8423) since March 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mrs. So Chan Wai Hang (蘇陳偉香女士), also known as **Ms. Chan Wai Hang (陳偉香女士)**, BBS, aged 69

Mrs. So Chan Wai Hang was appointed as the independent non-executive Director on 24 June 2017. She is the chairlady of the remuneration committee and a member of the audit committee and nomination committee.

Mrs. So completed her secondary education in Hong Kong in July 1967 and was conferred Honorary University Fellowship of Hong Kong Baptist University in September 2016. She has extensive experience in the manufacturing industry and has been engaged in such business for over 37 years. She has been the managing director of Yue Wing Cheong Manufactory Limited, which principally engages in the business of manufacturing handbags, since November 1980, during which she has been responsible for the overall management and strategic development of the company. She has also been the vice chairlady of Winnie Sanitary Product Limited since February 2013 and the vice chairlady of Su's Dongguan Sanitary Product Limited since October 2013, both of which principally engage in the business of manufacturing sanitary products and she has been responsible for the overall management and strategic development of these companies. Mrs. So was awarded Bronze Bauhinia Star by the Government of Hong Kong on 1 July 2015.

Mr. Ho Yuk Hay (何旭晞先生), aged 39

Mr. Ho Yuk Hay was appointed as the independent non-executive Director on 24 June 2017. He is the chairman of the audit committee and a member of the remuneration committee and nomination committee.

Mr. Ho graduated from the Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in November 2001 and a master's degree in corporate governance in October 2012. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2005. He has also been associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since February 2013.

Mr. Ho has over 16 years of experience in auditing and accounting. He worked for Deloitte Touche Tohmatsu from September 2001 to April 2011, and his last position held was senior manager in the audit department. He then worked for Sino Splendid Holdings Limited (formerly known as HONGKONG.COM CORPORATION and China.com Inc.), a company listed on the Stock Exchange (stock code: 8006), as financial controller from April 2011 to September 2012 and as the chief financial officer from September 2012 to October 2015. He also worked for Sinoref Holdings Limited (now known as Cybernaut International Holdings Company Limited), a company listed on the Stock Exchange (stock code: 1020), as executive director from October 2013 to October 2014 and as company secretary from February 2014 to January 2015. He has been the financial controller of GCL New Energy Holdings Limited, a company listed on the Stock Exchange (stock code: 451), since October 2015.

Senior Management

Ms. Fok Wai Man (霍惠敏女士), aged 52, is the sales director of the Group and is primarily responsible for overseeing the sales and marketing department of the Group. Ms. Fok joined the Group on 1 September 2016. She completed secondary 5 studies at Bethel High School in July 1984. Ms. Fok has over 29 years of sales experience. She joined Mr. Lam's then garment business, namely, Sun Tin Lun Label Weaving and Printing Factory, as a sales executive in March 1988. In July 1991, she left Sun Tin Lun Label Weaving and Printing Factory and joined another then business of Mr. Lam namely Sin Tin Lun (H.K.) Garment Accessories Company Limited until she left in September 2016 and assumed the current position in the Group. Her last position held in Sin Tin Lun (H.K.) Garment Accessories Company Limited was sales director.

Mr. Chan Fei Fei (陳非非先生), aged 37, is the financial controller of the Group and is primarily responsible for overseeing the financial management of the Group. Mr. Chan joined the Group on 1 September 2016. He graduated from the Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in December 2005. He passed the third level in accounting examined by London Chamber of Commerce and Industry Examinations Board with credit in 2001. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since February 2009.

Mr. Chan has over 10 years of experience in auditing, accounting and financial management. Prior to joining the Group, he worked for Deloitte Touche Tohmatsu from August 2005 to December 2010, and his last position held was senior in the audit department. During the period between December 2010 and May 2011, he joined Casablanca International Limited as finance manager. From May 2011 to July 2012, he worked as financial controller of Interior Contract International Limited. He then worked as financial control director of Toneluck Industrial Limited from August 2012 to September 2014. From January 2015 to June 2015, he worked as finance manager of Sin Tin Lun (H.K.) Garment Accessories Company Limited.

Each of the senior management has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas.

* *for identification purpose only*

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44(2) of the GEM Listing Rules, the Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the year ended 31 December 2018, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lam Cheung Chuen is the chairman of the Board and Mr. Gabi Lam is the chief executive officer of the Group during the Year.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details of the Board Committees are set out below in this annual report.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out in paragraph D.3.1 of the CG Code, which include the following:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

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

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

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

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company.

Composition of the Board

Up to the date of this annual report, the Board comprises six Directors, including one non-executive Director, two executive Directors and three independent non-executive Directors (the "INED"). The composition of the Board is set out as follow:

Non-executive Director
Mr. Lam Cheung Chuen

Executive Directors
Mr. Lam Kai Yuen
Mr. Lam Kai Cheong

Independent non-executive Directors
Mr. Moy Yee Wo, Matthew
Mrs. So Chan Wai Hang
Mr. Ho Yuk Hay

In compliance with rules 5.05(1) and 5.05(2) of the GEM Listing Rules, the Board consisted of three INEDs during the Year, with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. During the Year and as of the date of this report, the number of INEDs represents more than one-third of the Board as required under rule 5.05A of the GEM Listing Rules. As such, there is a strong independent element in the Board to provide independent judgement.

In accordance with code provision A.4.1 of the CG Code, the Company has entered into a letter of appointment with each of the INEDs under which each INED is appointed for a fixed term (subject to re-election). Each of the letter of appointment is for a fixed term of one year initially commencing from the Listing Date and renewable automatically for successive term of one year unless terminated by either party in accordance with the terms thereof. Specific enquiry has been made by the Company of each of the INEDs to confirm their independence pursuant to rule 5.09 of the GEM Listing Rules. In this connection, the Company has received confirmations from all of the three INEDs as to their independence. Based on the confirmations received, the Company considers all the INEDs to be independent under the GEM Listing Rules.

Pursuant to Article 84 of the articles of association of the Company (the "Articles"), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every 3 years. However, a retiring Director shall be eligible for re-election.

Saved as disclosed below and in the section "Biographical Details of Directors and Senior Management" in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

Board Diversity Policy

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. Pursuant to the CG Code, the Board has adopted a board diversity policy (the "Board Diversity Policy"). The Company recognises and benefits from the diversity of Board members. While appointments of all members of the Board will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Group's business. Selection of candidates will be based on a range of perspectives, including but not limited to cultural, educational background, experience (professional or otherwise), skills and knowledge.

CORPORATE GOVERNANCE REPORT

Board and General Meetings

During the Year, four Board meetings were held. The annual general meeting of the Company will be held on 6 May 2019 (the "2019 AGM").

The attendance record of each Director at the Board meeting for the Year is set out in the table below:

	Number of Attendance/ number of Board Meetings
Executive Directors	
Mr. Lam Kai Yuen	4/4
Mr. Lam Kai Cheong	4/4
Non-executive Director	
Mr. Lam Cheung Chuen	4/4
Independent non-executive Directors	
Mr. Moy Yee Wo, Matthew	4/4
Mrs. So Chan Wai Hang	4/4
Mr. Ho Yuk Hay	4/4

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding securities transactions by the Directors as the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the "Model Code"). The Company has also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the Model Code by the Directors during the year ended 31 December 2018.

Corporate Governance Functions and Conduct of Meetings

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions as set out in provision D.3.1 of the Code, such as developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of the Directors and senior management, and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Provision A.1.3 of the Code stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are required to be given. An agenda and accompanying board papers are sent to all Directors at least three days before each Board meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. All the Directors are given an opportunity to include matters in the agenda for regular Board meetings. The Directors also have separate independent professional advice at the Company's expense to assist them in performing their duties to the Company if necessary. Minutes of all Board meetings recording sufficient details of matters considered and decisions made are duly kept by the secretary of the meetings and open for inspection on reasonable notice by the Directors.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

The Group acknowledges the importance of continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged the Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

All the Directors understand the importance of continuous professional development and are committed to participate any suitable training to develop and refresh their knowledge and skills.

The Company has maintained the training record in respect of each Director. There are also arrangements in place for providing continuing briefing and professional development to Directors by the Company whenever necessary.

BOARD COMMITTEES

The Board has established a number of functional committees in compliance with the relevant GEM Listing Rules and to assist the Board to discharge its duties. Currently, three committees have been established. An audit committee (the "Audit Committee") has been established on 24 June 2017 with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, and paragraphs C3.3 and C3.7 of the CG Code; a remuneration committee (the "Remuneration Committee") has been established on 24 June 2017 with its terms of reference in compliance with paragraph B1.2 of the CG Code; and a nomination committee (the "Nomination Committee") has been established on 24 June 2017 with its terms of reference in compliance with paragraph A5.2 of the CG Code. The functions and responsibilities of these committees have been set out in the relevant terms of reference which are of no less stringent than that stated in the CG Code. The relevant terms of reference of each of the three committees can be found on the Group's website (www.sthl.com.hk) and the website of the Stock Exchange.

All committees have been provided with sufficient resources and support from the Group to discharge their duties.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 24 June 2017 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code. The Audit Committee consists of three members, namely Mr. Ho Yuk Hay, Mr. Moy Yee Wo, Matthew and Mrs. So Chan Wai Hang, all being independent non-executive Directors. Mr. Ho Yuk Hay currently serves as the chairman of the Audit Committee, who has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically. The Audit committee has reviewed the consolidated financial statements for the year ended 31 December 2018.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.28 of the GEM Listing Rules. In addition, the majority of the Audit Committee shall be INEDs.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others, the following (for the complete terms of reference, please refer to the Group's website at www.sthl.com.hk or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approve the remuneration and terms of engagement of the Company's external auditor;

2. to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. to develop and implement policy on engaging the Company's external auditor to supply non-audit services, if any;

4. to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly report and review significant financial reporting judgments contained in them;

5. to discuss with the Company's external auditors questions and doubts arising in the audit of annual accounts;

6. to review the statement about the Company's internal control system as included in the Company's annual report prior to submission for the Board's approval;

7. to review the Company's financial reporting, financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems;

8. to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to have effective systems;

9. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

10. to review the financial and accounting policies and practices of the Group;

11. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

13. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board; and

14. to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the Year and up to the date of this report.

The members of the Audit Committee should meet at least twice a year. During the Year, four Audit Committee meetings were held.

The attendance records of the members of the Audit Committee are summarised below:

Members of the Audit Committee	Number of attendance
Mr. Ho Yuk Hay (Chairman)	4/4
Mr. Moy Yee Wo, Matthew	4/4
Mrs. So Chan Wai Hang	4/4

The following is a summary of the works performed by the Audit Committee during the Year:

(a) reviewed the Group's consolidated financial result for the year ended 31 December 2017, for the three months ended 31 March 2018 for the six months ended 30 June 2018 and the nine months ended 30 September 2018 before submission to the Board, with a focus on compliance with accounting standards, the GEM Listing Rules and other requirements in relation to financial reporting of the Audit Committee;

(b) discussed the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management;

(c) reviewed the accounting principles and practices adopted by the Group and other financial reporting matters.

There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditor. The Audit Committee has reviewed with the management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements for the Year.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mrs. So Chan Wai Hang (Chairlady), Mr. May Yee Wo, Matthew and Mr. Ho Yuk Hay, all being independent non-executive Directors of the Company.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include, among other things, the following (for the complete terms of references, please refer to the Group's website at www.sthl.com.hk or the website of the Stock Exchange):

1. to consult the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

9. to ensure that no Directors or any of his associates is involved in deciding his own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the Year, a meeting of the Remuneration Committee was held and has, inter alia, reviewed the remuneration packages for individual executive Directors and senior management and making recommendations to the Board.

The attendance records of the members of the Remuneration Committee are summarised below:

Members of the Remuneration Committee	Number of attendance
Mrs. So Chan Wai Hang (Chairlady)	1/1
Mr. Moy Yee Wo, Matthew	1/1
Mr. Ho Yuk Hay	1/1

The emolument payable to the Directors depends on their respective contractual terms under the service contracts or the appointment letters (as the case may be), and as recommended by the Remuneration Committee. Details of the Directors' emoluments are set out in note 9 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr. Moy Yee Wo, Matthew (Chairman), Mrs. So Chan Wai Hang and Mr. Ho Yuk Hay, all being independent non-executive Directors of the Company.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include, among other things, the following (for the complete terms of reference please refer to the Group's website at www.sthl.com.hk or the website of the Stock Exchange):

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. to review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;

3. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. to assess the independence of INEDs; and

5. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive.

The members of the Nomination Committee should meet at least once a year. During the year, a meeting of the Nomination Meeting was held and has, inter alia, reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and considered the Directors to retire and re-appoint at the 2019 AGM.

The attendance records of the members of the Nomination Committee are summarised below:

Members of the Nomination Committee	Number of attendance
Mr. Moy Yee Wo, Matthew (Chairman)	1/1
Mr. Ho Yuk Hay	1/1
Mrs. So Chan Wai Hang	1/1

AUDITORS' REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2018, the remuneration paid or payable to the external auditor of the Company in respect of the statutory audit services and non-audit services for the Group are as follows:

	Fees paid/payable for the services rendered	
	2018	2017
	HK$'000	HK$'000
Statutory audit services	**1,050**	935
Non-audit services for reviewing interim results	**–**	200
Non-audit services for acting as reporting accountant for the Listing and tax services	**–**	1,706

COMPANY SECRETARY

Mr. Chan Fei Fei was appointed as the company secretary of the Company on 26 January 2017. Please refer to the section "Biographical details of Directors and Senior Management" for his biographical information.

All Directors have access to the advice and services of the company secretary. The company secretary reports to the Chairman of the Board and are responsible for ensuring that board procedures are followed, and for facilitating communications among Directors as well as with shareholders of the Company and management. During the year ended 31 December 2018, the company secretary has taken no less than 15 hours of relevant professional training.

COMPLIANCE OFFICER

Mr. Gabi Lam, an executive Director of the Board, is the compliance officer of the Group. Please refer to the section "Biographical details of Directors and Senior Management" for her biographical information.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholder investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

CORPORATE GOVERNANCE REPORT

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Group recognises that good risk management is essential for the long-term development on the Group's business. The management is responsible to establish, implement, review and evaluate effectiveness of the internal control system underpinning the risk management framework. Upon taking into full account of the new requirements effective from 1 January 2016 under the GEM Listing Rules brought by the Stock Exchange relating to risk management and internal control, the management has formulated the risk management and control framework. All employees are committed to implementing the risk management framework into the daily operation.

OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Group has adopted a three-tier risk management approach to identify, assess, mitigate and handle risks. At the first line of defence, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defence, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defence is effective. As the final line of defence, the audit committee of the Company, with the professional advices and opinions from the external professional company by whom internal audit work of the Group was conducted on annual basis, ensures that the first and second lines of defence are effective through constant inspection and monitoring.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge and understand their responsibility for preparing the consolidated financial statements and to ensure that the consolidated financial statements of the Group are prepared in a manner which reflects the true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required under the GEM Listing Rules.

The Directors are of the view that the consolidated financial statements of the Group for the year has been prepared on this basis.

To the best knowledge of the Directors, there is no uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

Statement of the Company's external auditors' responsibilities in respect of the consolidated financial statements is set out in the Independent Auditors' Report of this annual report.

GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting ("AGM") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc.

At the AGM, the shareholders will be given the opportunity to raise questions to the Directors (including the INEDs). The external auditor of the Company is also invited to be present at the AGM to address the queries of the shareholders concerning the audit procedures and the auditor's report.

The forthcoming AGM of the Company (the "2019 AGM") will be held on 6 May 2019, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

Procedures for convening an extraordinary general meeting upon shareholders' requisition

The shareholders shall be entitled to convene an extraordinary general meeting (the "EGM") on requisition by shareholders pursuant to Article 64 of the Articles that the Board may, whenever it thinks fit, convene an EGM on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionists themselves may convene a meeting in accordance with the Articles and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisition(s) by the Company.

Procedures for Shareholders' Nomination of Directors

Pursuant to Article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director (signed by a member duly qualified to attend and vote at the meeting), notice in writing by that person of his willingness to be elected and the biographical details of that person as required under Rule 17.50(2) of the GEM Listing Rules for publication by the Company shall have been lodged at the head office or at the registration office of the Company, provided that the minimum length of the period during which such notices to the Company may be given shall be at least 7 days and that (if such notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of the notices required under this Article will commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should there be any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Room 820, 8th Floor, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.sthl.com.hk and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Reach New Holdings Limited (the "Company") is pleased to present our Environmental, Social and Governance ("ESG") Report ("ESG Report") for the financial year ended 31 December 2018. The report involves environmental and social impacts, policies and initiatives of the Company and our subsidiaries ("the Group") to demonstrate our continuous commitment to sustainability.

The present scope of ESG reporting covers the operating core activities of the Group's headquarters and subsidiaries, which include labelling solution management and garment accessories production. This report highlights our sustainability activities spanning over the period from 1 January 2018 to 31 December 2018.

The ESG Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") under Appendix 20 of the GEM Listing Rules. Those aspects and key performance indicators ("KPI") defined in the ESG Reporting Guide which are considered to be relevant and material to the Group's businesses and operations will be presented under the four subject areas, namely: Environmental Protection, Employment and Labour Practices, Operating Practices and Community Investment. A complete list of index in compliance with the ESG Reporting Guide is also available at the end of this report for reference.

In order to define what are relevant and material to our business in relation to sustainability, the Group has to understand what issues our stakeholders are most concerned with. We define our stakeholders as people who affect our business and people who are affected by our business. Our stakeholders include the shareholders, employees, suppliers, customers and community. In our daily business, we actively exchange information with our stakeholders through our transparent platform while we are devoted to continuous improvement of our communication system. We are committed to maintain long-term partnerships with our stakeholders and are actively engaged in addressing their concerns with follow-up actions.

If you, as one of our stakeholders, have any questions about the content of the ESG Report or comments on the Group's sustainability issues, please contact us via info@sthl.com.hk.

2. ENVIRONMENTAL PROTECTION

2.1 Corporate Environmental Policy

Being the foundation of a sustainable economy, a sustainable environment is crucial to the well-being of human beings. In accordance with our environmental vision, the Group is committed to upholding high environmental standards to fulfil relevant requirements under applicable laws or ordinances during the operation of the business, including all necessary requirements under the Environmental Protection Law of the People's Republic of China ("PRC"). As at 31 December 2018, the Group was in compliance with the applicable regulations and rules governing air and greenhouse gas emission, discharges into water and land, and generation of hazardous and non-hazardous waste. We have received FSC certification for our products which meet the requirements of chain-of custody by purchasing FSC certified mixed and recycled paper, production and sales of FSC certified mixed and recycled printed paper products. We have also achieved Oeko-Tex standard 100 Confidence in Textiles which certified that our woven labels made of white & dyed polyester yarn (with disperse dyestuffs) and woven badges made of white and dyed polyester yarn (with disperse dyestuffs) and polyester interlining in black and white meet the human ecological requirements of the Oeko-Tex Standard 100.

2.2 Energy Efficiency Management

Electricity consumption of our plant is the major contribution to our greenhouse gas emission and energy footprints. In 2018, the Group adopted a number of energy-saving initiatives and efficiency practices to enhance our employee's awareness for greenhouse gas emission reduction and energy saving, including:

- electrical machinery improvement;
- encouraging digital printing to reduce the utilisation of water, electricity, screen films and other resources;
- encouraging the employees to turn off IT devices when not in use;
- setting office machines such as copiers and TV monitors to turn off automatically after office hours;
- maintaining an indoor temperature at an optimal level for comfort; and
- putting up signage emphasizing the importance of energy saving.

By adopting the above practices, our employee's awareness for greenhouse gas emission reduction and energy saving is enhanced.

2.3 Non-Hazardous Waste Management

Believing that every small step will make a difference, the Group is as committed as ever to conserving precious resources by taking eco-friendly measures to reduce disposal of non-hazardous waste throughout our operation.

We encourage paperless solution for as documents storage, material sharing or internal administrative documents. When using paper, employees are encouraged to use double-sided paper, black and white or recycled papers when printing or photocopying documents. It considerably improves operational efficiency while helping create a paperless operation system. Most of the used paper can be recycled and such materials were collected by waste collector.

2.4 Environmental Performance

The Group considers environmental stewardship an essential component of our corporate responsibility and are therefore exceptionally committed to promoting environmental protection activities in harmony with economic development.

In accordance with the ESG Reporting Guide, our environmental performance of "Energy Use and Emissions" and "Use of Resources" during the reporting period are presented as below.

Table 1 — Energy Use and Emissions

Energy Use and Emissions	Unit	2018
Electricity Consumption	kWh	3,268,195
Electricity Consumption Intensity	kWh/revenue (in RMB)	0.033
Greenhouse Gas Emissions	CO_2e (tonne)	70.1
Nitrogen Oxides	g	25,895
Sulphur Oxides	g	92,484
Particulate Matter	g	379,600

Table 2 — Use of Resources

Use of Resources	Unit	2018
Paper	tonne	1,044

In the future, the Group will continue to raise employees' awareness in environmental protection on an ongoing basis and perform our business with an environmentally conscious approach.

3. EMPLOYMENT AND LABOUR PRACTICES

3.1 Employment and Labour

Human capital has always been considered by the Group as the most important asset for our long-term operation and business development, thus the Group is committed to upholding an open, fair, just and reasonable human resource policy.

Equality and diversity is highly respected in our corporate philosophy during the process of employment, remuneration, promotion and termination. According to our employee inclusion policy, we strictly follow the relevant laws and regulations and our employment policies to select candidates based on skillsets, experience and expertise and offer equal employment opportunities to different genders, age groups and nationalities. It is the Group's policy to prohibit the use of child and forced labour and our human resource department is responsible to closely monitor the practical situation in order to comply with the applicable regulations related to child labour and forced labour.

The Group safeguards the rights of our employees by strictly complying with the requirements under the employment-related legislations in Hong Kong and the Labour Law of the PRC and offers a competitive remuneration package, including internal promotion opportunities and performance-based bonus, to recruit and retain our experienced employees.

Employees hired by the Group are mainly located in Hong Kong and China. In Hong Kong, the Group safeguards the rights of our employees by strictly complying with relevant employment laws and regulations, including the Mandatory Provident Fund Schemes Ordinance by participating in the Mandatory Provident Fund retirement benefit scheme for our eligible employees, the Minimum Wage Ordinance, Employment Ordinance and the Employees' Compensation Ordinance by offering competitive wages, medical insurance, disability and invalidity coverage, maternity leave and other compensation to our employees. In China, we have participated in welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Regulations on the Administration of Housing Provident Funds and the Social Insurance Law of the PRC.

The Group also reviews the corporate policy of employment and labour regularly to ensure that the Group has fully complied with the local labour legislations and regulations.

As at 31 December 2018, the Group was in compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare and relating to preventing child and forced labour in all material respects.

In accordance with the ESG Reporting Guide, the details of the workforce of the Group during the reporting period of 2018 are tabulated as well as presented in graphs below.

Summary of employment performance indicators:

	2018
Total Number of Employees	302
By Gender	
Female	174 (57.6%)
Male	128 (42.4%)
By Age	
18 or below	1
19 to 40	188
41 to 60	109
Over 60	4

Diversity

	2018					
Number of Employees by Employee Category	**Gender**		**Age Group**			
	Female	**Male**	**18 or Below**	**19 to 40**	**41 to 60**	**Over 60**
Senior level	9	15	0	10	12	2
Ordinary level	165	113	1	178	97	2

Turnover Rate

	2018
Number and Rate (%) of Employee Turnover	63/302 (21%)
By Gender	
Female	47/174 (27%)
Male	16/128 (13%)

3.2 Training and Development

Believing that the competence, work experience and skill-sets of our staff, including sales and marketing staff, procurement staff, production staff and quality control staff, plays an important role in maintaining our operation efficiency. We ensure that our professional training and development programs continuously evolve to keep pace with the industry latest standards and create a listening culture through support and coaching.

Every new joiner will be provided proper orientation training and mentoring in order to help them adapt to the new working environment affirmatively and quickly. Continuous trainings are also committed by the Group in different ways including on-the-job training, comprehensive training for specific skill development, and professional training for relevant employees.

In 2018, we organized an internal training for our management in different departments and in different management level for the updated management skill in the aspect of customer management, supplier management, effectiveness and efficiency of communication skill, key performance index for assessment of staff performance and efficiency of daily operation flow. Throughout the training, we also updated our management in relation to the Group's internal control procedures and delivered the importance of cost effectiveness in different processes of operation.

Through a variety of on-the-job learning sessions, we are able to nurture and retain excellent talents and strengthen the competitiveness of the Group.

In accordance with the ESG Reporting Guide, the details of the of training and development programs provided by the Group during the reporting period of 2018 are presented as below.

Table 4 — Training and Development

Employee Training	Unit	2017	2018
Average hours of training received per employees	hours	4.62	**3.27**
Average hours of training per employee by gender			
Female	hours	4.04	**2.80**
Male	hours	5.42	**3.90**
Average hours of training per employee by ranking			
Senior level	hours	15.42	**11.46**
Ordinary level	hours	3.77	**2.56**
Percentage of training by gender			
Female	%	70.4	**82.2**
Male	%	86.3	**84.4**
Percentage of training by ranking			
Senior level	%	100	**95.8**
Ordinary level	%	75.3	**82.0**

3.3 Health and Work Safety

It is important for the Group as a production-driven enterprise to ensure the occupational health and safety of our employees. In compliance with the industry standards and the statutory requirements under the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Group is committed to providing our employees with a healthy and safe workplace in the course of its business. On the one hand, the Group has offered our employees with personal protective equipment based on their various positions. For example, the staff at production line will be provided with dust-proof masks and earplugs. On the other hand, the Group has organised regular safety education programs for our employees to raise their safety awareness over the course of production activities. In addition, the plant sites will organise fire drills and fire safety training each year to enhance the fire safety awareness of our employees.

The Group cares about the physical and mental health of our employees and provides our employees with regular health checks. By providing a full-range health service platform for our employees, the Group maintains the health level of our employees with precautions against the spread of diseases, thus ensuring the healthy conditions of our employees. The Group offers our employees an extensive range of fringe benefits, including lucky money or festive gifts to our employees on Chinese New Year, Mid-autumn Festival, Women's Days, and other statutory holidays.

As at 31 December 2018, the Group has complied with all applicable laws and regulations in relation to providing a safe working environment and protecting employees from occupational hazards in all material respects.

4. OPERATING PRACTICES

The Group has developed a series of management systems and procedures to be aligned with the Corporate Governance required by HKEX.

4.1 Supply Chain Management

Over the course of selecting potential suppliers, our procurement department is required to analyse their competitiveness, and identified suppliers will be further approved by the production department of the plant sites and other related departments following their consensus. In this case, they will qualify as a member on the qualified supplier list of the Group. As at 31 December 2018, the Group has over 300 suppliers which are all located in the PRC.

In accordance with the requirements under the ISO 9001:2008 quality management system, the Group has established a set of selection and assessment standards, and would investigate into the operating conditions, the quality management system, production capacities, services and delivery capabilities of the potential suppliers, such findings will serve as bases for selecting strategic suppliers. By introducing a regular assessment scheme, we conduct regular reviews and inspections over the performance of our suppliers in various aspects. Our regular assessment indicators cover quality, pricing, delivery schedule, services, etc. for the purposes of achieving risk control over the supply chain. We would also inspect suppliers' qualification certificates such as FSC certificate and Oeko-Tex certificate. Persisting in our stringent approval system for all strategic suppliers, the Group will promote the quality management of our suppliers of raw materials and green management, while timely disqualifying unfit suppliers.

4.2 Quality Management System

We have implemented and maintained a quality management system of high standard. We maintain the quality by achieving ISO 9001:2008 certification continuously to demonstrate that we have ability to consistently provide services that meet our customers' needs and fulfill applicable statutory and regulatory requirements.

4.3 Intellectual Property Rights

The Group is committed to complying with the relevant intellectual property right ("IP rights") laws by maintaining effective control over production management. As at 31 December 2018, the Group had registered five trademarks which are material to the Group's business. The Group values and protects its intellectual properties through periodic trademark renewals.

In order to ensure that the customer's IP rights are properly protected during the outsourcing processes to subcontractors, a confidentiality agreement regarding IP rights must be signed before business engagement. Internally, we enter into standard employment contracts with our employees which contain provisions on IP rights and confidentiality. Each employee of the Group has signed a written confirmation to (i) confirm that all IP rights created or made during their employment with the Group shall belong to us; and (ii) agree not to use or disclose the confidential information relating to the product designs without authorisation of the Group. When the products designs are provided by the customers to the Group for product development, IP rights of such designs belongs to the customers. IP rights also belong to customers when the Group provides design inputs or polish the original product design from customer.

Due to the nature of our business, the Group may be subject to risks in relations to the IP rights of the garment brand companies and the Group may be exposed to claims in respect of the infringement of third party IP rights. Therefore, to ensure that the trademarks or the designs and specifications provided by our customers do not infringe third party's IP rights during the course of business, we have implemented the following internal control measures:

(i) obtain the relevant certificates, licences or authorisations to check if our customers have the right to authorise us to manufacture products with the relevant trademarks, designs or specifications;

(ii) our sales and marketing department check the trademarks, designs or specifications through online databases maintained by IP rights registries in various countries to ascertain the name of the owners of the IP rights; external legal counsel will be consulted, if necessary; and

(iii) incorporate terms in agreements with our customers and require them to, among others, (a) undertake that it is the registered owner/authorised licensee of the registered owner of the trademarks, designs or specifications; (b) hold us harmless from and against any and all third party claims and any associated cost, including legal costs, arising from the use of the products sold by our customers.

4.4 Anti-Corruption

The Group is committed to upholding a high standard of business ethics and to standards to prohibit bribery and corrupt practices. The Group has developed a series of company policies on anti-fraud, anti-bribery, anti-extortion and anti-money laundering with reference to the Prevention of Bribery Ordinance (Cap 201 of the laws of Hong Kong). These policies apply to all members of the Group, and we also encourage all of our business partners to abide by the principles of the policies. The Group conducts periodic and systematic fraud risk assessments and will effectively communicate its anti-fraud policy and procedures to all levels of employees. The Group continues to monitor the effectiveness of its control related to mitigating fraud risk and remedy any deficiencies identified internally and by any external parties in a timely manner. During the reporting period, we were in compliance with the applicable rules and regulations relating to bribery, extortion, fraud and money laundering in all material respects. No legal case concerned with corrupt practices was brought against the Group or any of our employees in 2018.

With principles of "Commitment, Assurance of High Quality, Fair Deals and Faithfulness", all employees perform their duties with utmost level of good faith, determination and professionalism, and ensure that the reputation of the Group will not be tarnished because of misconduct and corruption behavior.

4.5 Whistle-Blowing Policy

In order to encourage our employees to report illegality, irregularity, malpractice, unethical acts or behaviours, inappropriate conducts or actions, the Group has set up a new whistle-blowing policy and procedures during the reporting period, by provoking disclosure of relevant information via a confidential reporting channel available to all employees. The policy aims to encourage our employees to report behaviour that is not in line with the principles of ethics and the Group's policy such as events that are non-compliant with the Group's policy, laws, rules, regulations, general practice of financial reporting and internal control.

The Group is committed to handling the reports with due care and conducting a detailed investigation seriously for each reasonably established report. Additionally, the Group is fully aware that we are obligated to refer the matter to the legal enforcement parties or regulators if the Group considers necessary.

The Group has addressed the "whistle-blowers" concerns in a fair and reasonable manner. All "whistle-blowers" who report in good faith are reasonably protected from retaliation or adverse consequence of their employment regardless of whether the allegation is substantiated.

The policy of "Whistle-Blowing" and its procedures, which apply to all levels of the members of the Group, have been documented in the employee handbook and have been circulated among employees for their reference.

5. COMMUNITY INVESTMENT

The Group adopts people-oriented management policy. Besides providing fringe benefits and packages to our employees, the Group will conduct an investigation into employees with difficulties on a regular basis each year, and those employees who suffer severe health issues or experience family-related misfortunes will receive specific assistance.

In 2018, continuing our objections as in the past, the Group donated to non-profit and charitable organizations of approximately RMB533,000.

6. THE STOCK EXCHANGE ESG REPORTING GUIDE CONTENT INDEX

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Environmental Protection: 2.1, 2.2 & 2.3	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI A1.1	Types of emissions and respective emissions data	Environmental Protection: 2.4	
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Environmental Protection: 2.4	
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	–	The Group has not identified any hazardous waste that was produced by our core business
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity	–	No significant non-hazardous waste was produced by our core business
KPI A1.5	Description of measures to mitigate emissions and results achieved	Environmental Protection: 2.2	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Environmental Protection: 2.3	
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources including energy, water and other raw materials	Environmental Protection: 2.1, 2.2 & 2.3	
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Environmental Protection: 2.4	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI A2.2	Water consumption in total and intensity	–	The Group believes that our water consumption is mainly used for commercial purpose and is not identified as material aspect in the Group's business
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Environmental Protection: 2.2	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose water efficiency initiatives and results achieved	–	The Group believes that our water consumption is mainly for commercial use and is not identified as material aspect in the Group's business
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced	–	Use of packaging material is not applicable to our core business and is not identified as material aspect in the Group's business
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environmental Protection: 2.1 & 2.4	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Environmental Protection: 2.2 & 2.3	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
B. Social			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti – discrimination, and other benefits and welfare	Employment and Labour Practices: 3.1	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Employment and Labour Practices: 3.1	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Employment and Labour Practices: 3.1	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Employment and Labour Practices: 3.3	
KPI B2.1	Number and rate of work-related fatalities	–	No work-related fatalities were recorded during the reporting period.
KPI B2.2	Lost days due to work injury	–	No lost days due to work injury were recorded during the reporting period
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Employment and Labour Practices: 3.3	
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employment and Labour Practices: 3.2	
KPI B3.1	The percentage of employees trained by gender and employee category	Employment and Labour Practices: 3.2	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI B3.2	The average training hours completed per employee by gender and employee category	Employment and Labour Practices: 3.2	
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Employment and Labour Practices: 3.1	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Employment and Labour Practices: 3.1	
KPI B4.2	Description of steps taken to eliminate child and forced labour practices when discovered	–	No such incidents were reported during the reporting period.
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	Operating Practices: 4.1	
KPI B5.1	Number of suppliers by geographical region	Operating Practices: 4.1	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Operating Practices: 4.1	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	–	No applicable regulations have been identified for the Group's operation and compliance purpose
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	–	No incidents were reported during the reporting period.
KPI B6.2	Number of products and service related complaints received and how they are dealt with	–	No complaints were reported during the reporting period.
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Operating Practices: 4.3	
KPI B6.4	Description of quality assurance process and recall procedures	–	No recall procedures are required throughout the Group's operation.
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Operating Practices: 4.3	

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Operating Practices: 4.4	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Operating Practices: 4.4	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Operating Practices: 4.5	
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes communities' interests into consideration	Community Investment: 5	
KPI B8.1	Focus areas of contribution	Community Investment: 5	
KPI B8.2	Resources contributed to the focus areas	Community Investment: 5	

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements for the financial year ended 31 December 2018 as follows:

Significant Changes in Constitutional Documents

Save for the adoption of the amended and restated memorandum and articles of association of the Company for the purpose of the Listing, there had been no significant changes in the constitutional documents of the Company during the year.

CORPORATE REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 January 2016.

In preparing for the listing of the shares on GEM on the Listing Date, the Group underwent the Corporate Reorganisation and the Company became the holding company of the companies comprising the Group upon the completion of the Corporate Reorganisation on 30 November 2016.

Details of the Corporate Reorganisation are set out in the section headed "History, Development and Reorganisation" in the Prospectus. The Shares of the Company have been listed on GEM since 21 July 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. We mainly engage in the production of three types of products, which are (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). We also source and sell other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products, to the customers of the Group in the PRC. The customers of the Group include (i) garment brand companies, (ii) sourcing companies designated by the garment brand companies and (iii) garment manufacturers in the PRC.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"), including a discussion of the principal risks and uncertainties facing the Group, key performance indicators, environmental policies of the Group, compliance with laws and regulations by the Group, its relationship with customers, suppliers, subcontractors and employees and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 10 of this annual report. This discussion forms part of this directors' report.

SEGMENT INFORMATION

An analysis of the Group's performance for the Year by operating segment is set out in note 5 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

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 on page 55 of this annual report.

The Board did not recommend payment of a final dividend for the year ended 31 December 2018.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 106 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement during the Year in the property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the Year in the share capital of the Company are set out in note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company has no reserves available for distribution to the shareholders, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 24 June 2017 (the "Scheme"). The terms of the Scheme are in accordance with the provision of Chapter 23 of the GEM Listing Rules.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2018.

DISCLOSURES OF INTERESTS

A. Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares or Debentures

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares or debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by Directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Interests in the company

Name of Director	Capacity/nature of interest	Number of Shares	Percentage of interest in the Company
Mr. Lam	Interest in controlled corporation (Note)	600,000,000 (Long position)	75%

Note: The 600,000,000 Shares are held by Neo Concept, which is wholly and beneficially owned by Mr. Lam. By virtue of the SFO, Mr. Lam is deemed to be interested in all the Shares held by Neo Concept.

Interests in associated corporations of the company

Name of Director	Name of associated corporation	Nature of interest	Number of shares in associated corporation	Percentage of shareholding in associated corporation
Mr. Lam	Neo Concept	Beneficial owner	100 (Long position)	100%

Save as disclosed above, as at the date of this report, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares 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 under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, required to be notified to the Company and the Stock Exchange.

B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

So far as the Directors are aware, as at 31 December 2018, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest or short position in the Shares or underlying Shares which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name	Capacity/nature of interest	Number of shares	Percentage of interest in the Company
Neo Concept	Beneficial owner	600,000,000 (Long position)	75%
Ms. Wong Ching Yuk	Interest of spouse (Note)	600,000,000 (Long position)	75%

Note: Ms. Wong Ching Yuk is the spouse of Mr. Lam. Under the SFO, Ms. Wong Ching Yuk is deemed to be interested in the same number of Shares in which Mr. Lam is interested.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures" above, had notified the Company of an interest or short position in the Shares, underlying Shares or debentures of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MAJOR CUSTOMERS

During the Year, the Group's five largest customers accounted for approximately 34.4% (2017: 28.6%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 20.4% (2017: 17.5%) of the total revenue.

To the best of the knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers.

MAJOR SUPPLIERS AND SUBCONTRACTORS

During the Year, the Group's five largest suppliers (including the subcontractors) accounted for approximately 46.0% (2017: 38.7%) of the total purchases of the Group and the largest supplier of the Group accounted for approximately 23.3% (2017: 17.4%) of the total purchases.

To the best of the knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

DIRECTORS

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

Non-executive Director

Mr. Lam Cheung Chuen *(Chairman)*

REPORT OF THE DIRECTORS

Executive Directors

Mr. Lam Kai Yuen
Mr. Lam Kai Cheong

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew
Mrs. So Chan Wai Hang
Mr. Ho Yuk Hay

Information regarding directors' emoluments is set out in note 9 to the consolidated financial statements.

An annual confirmation of independence pursuant to the requirements under Rule 5.09 of the GEM Listing Rules has been received from each of the INEDs.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages from 11 to 13 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year until terminated by the Director or the Company in accordance with the terms of the agreement. Each independent non-executive Directors was appointed under a letter of appointment for a fixed term of one year initially commencing from the Listing Date and renewable automatically for successive term of one year unless terminated by either party in accordance with the terms thereof.

Save as disclosed above, none of the Directors proposed for election at the forthcoming AGM has or is proposed to have a service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

DIRECTORS' RETIREMENT AND RE-ELECTION

Pursuant to Article 108 of the Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation every year shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the Board pursuant to Article 112 shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Pursuant to Article 112 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with Articles 108 and 112 of the Articles, Mr. Lam Cheung Chuen and Mr. Lam Kai Yuen will retire at the forthcoming AGM and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and elsewhere in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Director or an entity connected the Director had a material interest, whether directly or indirectly, subsisted at any time during the Year.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed in this annual report, there were no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 9, to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The Remuneration Committee will review and determine the remuneration and compensation packages of the Directors and senior management with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Scheme.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2018.

DEED OF NON-COMPETITION

The deed of non-competition dated 29 June 2017 has been entered into by Mr. Lam Cheung Chuen and Neo Concept Holdings Limited, being the controlling shareholders of the Company within the meaning of the GEM Listing Rules (collectively the "Controlling Shareholders") in favour of the Company and its subsidiaries regarding certain non-competition undertakings. The details of the deed of non-competition have been disclosed in the section headed "Relationship with the Controlling Shareholders" of the Prospectus.

The Company has received an annual declaration from each of the Controlling Shareholders confirming that he/she/it has complied with the non-competition undertakings provided to the Company under the said deed of non-competition during the Year. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-competition undertakings and confirmed that all the undertakings thereunder have been complied for the Year.

INTEREST OF COMPLIANCE ADVISER

As at 31 December 2018, as notified by the Company's compliance adviser, Alliance Partners Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated on 7 March 2017, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PERMITTED INDEMNITY PROVISIONS

At no time during the Year was there any permitted indemnity provisions (whether made by the Company or otherwise) being in force for the benefit of any Directors of the Company, or of its associated company.

RELATED PARTY TRANSACTIONS

The related party transactions entered into by the Group with Sweater Garment (Huizhou) Company Limited ("Sweater Garment (Huizhou)") during the Year as set out in note 25 to the consolidated financial statements are continuing connected transactions which are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirements pursuant to Chapter 20 of the GEM Listing Rules. Further details of these continuing connected transactions are set out in the section headed "Connected Transactions" in the Prospectus.

The Group has applied to the Stock Exchange for, and the Stock Exchange has granted it, a waiver from strict compliance with the announcement requirements under Chapter 20 of the GEM Listing Rules in respect of the continuing connected transactions with 史威特服飾(惠州)有限公司 Sweater Garment (Huizhou) Company Limited* ("Sweater Garment (Huizhou)") in relation to two tenancy agreements on the properties leased by the Company in Huizhou, the PRC. Further details of the said waiver are set out in the section below headed "Continuing Connected Transactions".

The related party transactions in relation to the key management personnel remuneration as disclosed in note 25 to the audited consolidated financial statements are connected transactions exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements pursuant to the GEM Listing Rules.

Save as disclosed above, the Directors consider that those related party transactions disclosed in note 25 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

* *For identification purpose only*

CONTINUING CONNECTED TRANSACTIONS

Tenancy Agreements entered into between Sweater Garment Huizhou, STL Garment Accessories and STL Apparel Accessories

The relevant connected person with whom we entered into the continuing connected transactions is Sweater Garment (Huizhou), which is owned as to 100% by Sweater Garment (HK) Limited. Sweater Garment (HK) Limited is beneficially owned as to 60% by Mr. Lam Cheung Chuen the non-executive Director and controlling shareholder of the Company. Therefore, Sweater Garment (Huizhou) is a subsidiary of a majority-controlled company (as defined under the GEM Listing Rules) of Mr. Lam Cheung Chuen and the connected person of the Group under Rule 20.07(4) of the GEM Listing Rules. Mr. Huang Yasan and Mr. Huang Qingzi, being the brother and cousin of the spouse of Mr. Lam Cheung Chuen, respectively, are also our connected persons. Each of them holds 20% of the issued share capital of Sweater Garment (HK) Limited, respectively.

On 1 March 2017, Sweater Garment (Huizhou) entered into a new tenancy agreements with 新天倫服裝配料(惠州)有限公司 (Sun Tin Lun Garment Accessories (Huizhou) Company Limited*) ("STL Garment Accessories") and 新天倫服裝輔料(惠州)有限公司 STL Apparel Accessories (HZ) Co. Ltd ("STL Apparel Accessories"), respectively (collectively, the "**Current Tenancy Agreements**"), pursuant to which Sweater Garment (Huizhou) agreed to lease the following properties to the Group for a three-year term commencing on 1 January 2017 and ending on 31 December 2019, details as follows:

Address	Tenant	Use of the property	Gross floor area under the Current Tenancy Agreements (sq.m.)
1st, 2nd, 3rd and portion of the 5th Floor, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, PRC ("**Property 1**")	STL Garment Accessories	Factory and office	18,557
Portion of the 5th Floor, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, PRC ("**Property 2**")	STL Apparel Accessories	Office	1,006

The expected aggregate maximum annual amount payable by STL Garment Accessories and STL Apparel Accessories pursuant to the Current Tenancy Agreements is set out below:

	Annual Cap Year ended/ending 31 December		
	2017	2018	2019
Rent payable in relation to Property 1	RMB2,586,372	RMB2,586,372	RMB2,586,372
Rent payable in relation to Property 2	RMB139,944	RMB139,944	RMB139,944

The Current Tenancy Agreements constitute continuing connected transactions of the Company under the GEM Listing Rules. Under the Current Tenancy Agreements, since each of the relevant percentage ratios calculated for the purpose of Chapter 20 of the GEM Listing Rules is less than 5%, the Current Tenancy Agreements are subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement under the GEM Listing Rules.

* *For identification purpose only*

The Group applied to the Stock Exchange for, and the Stock Exchange has granted it, a waiver from strict compliance with the announcement requirements under Chapter 20 of the GEM Listing Rules in respect of the non-exempt continuing connected transactions under the Current Tenancy Agreement mentioned above subject to (a) the above non-exempt continuing connected transactions will be carried out in compliance with the connected transactions in accordance with Chapter 20 of the GEM Listing Rules; and (b) the aggregate value of each of these non-exempt continuing connected transactions for each of the financial years ended or ending 31 December 2017, 2018 and 2019 will not exceed the relevant annual caps.

During the Year, the rental expenses paid under the Current Tenancy Agreement amounted to approximately RMB2.7 million (2017: approximately RMB2.7 million), which was within the annual cap for the Year.

Annual Review

Pursuant to Rule 20.53 of the GEM Listing Rules, the continuing connected transactions mentioned above have been reviewed by the INEDs who have confirmed that the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has been engaged by the Company according to Rule 20.54 of the GEM Listing Rules to report on the continuing connected transactions mentioned above. The auditor has issued a letter to the Board confirming, among other things, that nothing has come to their attention that causes them to believe that such transactions:

(a) have not been approved by the Board;

(b) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(c) have exceeded the cap.

A copy of this letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information that is publicly available to the Company, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

AUDITOR

The consolidated financial statements for the Year have been audited by Deloitte Touche Tohmatsu ("DTT"). DTT shall retire in the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of DTT as auditor of the Company will be proposed at the 2019 AGM. The Company has not changed its external auditor during the year ended 31 December 2018 and up to the date of this annual report.

REPORT OF THE DIRECTORS

The audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the audit committee of the Board. The audit committee is of the opinion that the audited consolidated financial statements of the Group for the year ended 31 December 2018 comply with the applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the section headed "Corporate Governance Report" on pages 15 to 24 of this report.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

CHARITABLE DONATIONS

Charitable and other donations made by the Group during the Year amounted to RMB533,000 (2017: RMB20,000).

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a wholly owned subsidiary of the Group and an independent third party established a company in the PRC, namely, 安滿新達（上海）服裝有限公司, of which the Group holds 10% equity interest for investment purpose. The registered capital of 安滿新達（上海）服裝有限公司 to be contributed by the Group is RMB1.0 million. 安滿新達（上海）服裝有限公司 will be engaged in the business of garments, garments related products and accessories trading in the PRC.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 30 April 2019 to Monday, 6 May 2019, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholder of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 29 April 2019.

On behalf of the Board
Reach New Holdings Limited
Lam Cheung Chuen
Chairman and Non-Executive Director

Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF REACH NEW HOLDINGS LIMITED
新達控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Reach New Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 55 to 105, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Allowance for credit losses	
We identified the allowance for credit losses as a key audit matter due to the significance of the amount of trade receivables to the consolidated financial statements and the significant judgment and estimates involved by management in determining the allowance for credit losses. As disclosed in notes 4 and 15 to the consolidated financial statements, in determining the allowance for credit losses, the Group takes into consideration the historical default rates and changes in forward-looking information. As at 31 December 2018, the carrying amount of the Group's trade receivables is approximately RMB14,107,000 (net of allowance for credit losses of approximately RMB738,000).	Our procedures in relation to the assessment of appropriateness of the allowance for credit losses included: • Obtaining an understanding of management's process of assessing the allowance for credit losses of trade receivables including the use of provision matrix; • Evaluating the appropriateness of groupings of trade receivables having similar loss patterns; • Evaluating the reasonableness of management's determination of the provision rates based on internal credit ratings; • Assessing the reasonableness of the historical default rates and taking into consideration of the forward-looking information; and • Testing the accuracy of management's calculation of the allowance for credit losses for trade receivables.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 the independent auditor's report is Tsang Kai Tai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Revenue	5	**98,939**	102,807
Cost of sales		**(69,621)**	(66,821)
Gross profit		**29,318**	35,986
Other income, gains and losses	6	**1,269**	(263)
Distribution and selling expenses		**(4,989)**	(4,529)
Administrative expenses		**(26,521)**	(23,192)
Listing expenses		**–**	(11,008)
Loss before tax		**(923)**	(3,006)
Income tax expense	7	**(1,861)**	(3,457)
Loss for the year and total comprehensive expense for the year attributable to owners of the Company	8	**(2,784)**	(6,463)
Loss per share, basic (RMB cents)	11	**(0.35)**	(0.94)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**18,719**	19,932
Intangible assets	13	**351**	92
Deposit for acquisition for property, plant and equipment		**1,110**	–
		20,180	20,024
CURRENT ASSETS			
Inventories	14	**4,153**	4,113
Trade receivables	15	**14,107**	19,837
Prepayments and other receivables	15	**2,235**	1,305
Amount due from ultimate holding company	16	**–**	18
Bank balances and cash	17	**41,723**	44,638
		62,218	69,911
CURRENT LIABILITIES			
Trade payables	18	**4,825**	8,383
Other payables	18	**5,134**	5,349
Receipt in advance		**–**	978
Contract liabilities		**236**	–
Tax payable		**389**	627
		10,584	15,337
NET CURRENT ASSETS		**51,634**	54,574
TOTAL ASSETS LESS CURRENT LIABILITIES		**71,814**	74,598
NON-CURRENT LIABILITY			
Deferred tax liability	19	**55**	55
NET ASSETS		**71,759**	74,543
CAPITAL AND RESERVES			
Share capital	20	**6,890**	6,890
Reserves		**64,869**	67,653
TOTAL EQUITY		**71,759**	74,543

The consolidated financial statements on pages 55 to 105 were approved and authorised for issue by the Board of Directors on 22 March 2019 and are signed on its behalf by:

Mr. Lam Cheung Chuen
DIRECTOR

Mr. Lam Kai Yuen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2017	–	–	14,145	30,333	44,478
Loss and total comprehensive expense for the year	–	–	–	(6,463)	(6,463)
Dividend paid (note 10)	–	–	–	(7,137)	(7,137)
Issuance of shares (note 20)	1,722	49,953	–	–	51,675
Capitalisation issue (note 20)	5,168	(5,168)	–	–	–
Transaction costs paid for issuance of shares (note 29)	–	(8,010)	–	–	(8,010)
At 31 December 2017	6,890	36,775	14,145	16,733	74,543
Loss and total comprehensive expense for the year	–	–	–	(2,784)	(2,784)
At 31 December 2018	**6,890**	**36,775**	**14,145**	**13,949**	**71,759**

Note: As part of the group reorganisation, there are series of restructuring within Reach New Holdings Limited (the "**Company**") and its subsidiaries mainly involved interspersing investment holding entities between the operating subsidiaries and investment holding companies. The difference between the Company's share capital and the combined paid-in capital of 新天倫服裝配料(惠州)有限公司 and 新天倫服裝輔料(惠州)有限公司, the indirect wholly-owned subsidiaries of the Company established in the People's Republic of China, was credited to other reserve on 30 November 2016.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Loss before tax	**(923)**	(3,006)
Adjustments for:		
Depreciation of property, plant and equipment	**3,578**	4,326
Amortisation of intangible assets	**31**	26
Allowance for credit losses	**193**	327
Reversal of allowance for inventories	**(60)**	–
Bank interest income	**(70)**	(41)
Loss on disposal of property, plant and equipment	**31**	–
Exchange (gain) loss, net	**(1,063)**	914
Operating cash flows before movements in working capital	**1,717**	2,546
Decrease (increase) in inventories	**20**	(926)
Decrease (increase) in trade receivables	**5,537**	(2,391)
(Increase) decrease in prepayments and other receivables	**(930)**	706
Decrease in trade payables	**(3,558)**	(2,479)
(Decrease) increase in other payables	**(215)**	1,289
Increase in receipt in advance	**–**	412
Decrease in contract liabilities	**(742)**	–
Cash generated from (used in) operations	**1,829**	(843)
Income tax paid	**(2,099)**	(5,878)
NET CASH USED IN OPERATING ACTIVITIES	**(270)**	(6,721)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,403)**	(3,276)
Purchase of intangible assets	**(290)**	–
Deposit paid for acquisition of property, plant and equipment	**(1,110)**	–
Advance to ultimate holding company	**–**	(7)
Repayment from ultimate holding company	**18**	–
Bank interest received	**70**	41
Proceeds on disposal of property, plant and equipment	**7**	–
NET CASH USED IN INVESTING ACTIVITIES	**(3,708)**	(3,242)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018	2017
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Advance from directors	–	1,339
Repayment to directors	–	(5,660)
Dividend paid	–	(7,137)
Proceeds from issuance of shares	–	51,675
Transaction costs paid for issuance of shares	–	(8,010)
NET CASH FROM FINANCING ACTIVITIES	–	32,207
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,978)**	22,244
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**44,638**	23,308
Effect of foreign exchange rate changes	**1,063**	(914)
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	**41,723**	44,638

1. GENERAL

Reach New Holdings Limited (the "**Company**") is a public limited company incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 22 January 2016 and its shares are listed on the GEM Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2017. Its registered office is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is located at Sun Tin Lun Industrial Centre, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, the People's Republic of China (the "**PRC**"). Its parent company is Neo Concept Holdings Limited, a private company incorporated in the British Virgin Islands (the "**BVI**"). Its ultimate controlling party is Mr. Lam Cheung Chuen ("Mr. Lam"), who is the chairman and also a non-executive director of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are principally engaged in production and supply of garment accessories in the PRC.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

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

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

The Company and its subsidiaries (collectively refer to as the "**Group**") has applied the following new and amendments to HKFRSs and HKASs issued by the HKICPA for the first time in the current year:

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

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

2.1 HKFRS 15 Revenue from Contracts with Customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

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

The Group recognises revenue from manufacturing and sales of garment accessories which arises from contracts with customers.

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

Summary of effects arising from initial application of HKFRS 15

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

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	RMB'000	RMB'000	RMB'000
Current liabilities			
Receipt in advance (Note)	978	(978)	–
Contract liabilities (Note)	–	978	978

Note: As at 1 January 2018, receipt in advance of approximately RMB978,000 previously included in current liabilities was reclassified to contract liabilities.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on consolidated statement of financial position

	As reported	Reclassification	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Current liabilities			
Receipt in advance	–	236	236
Contract liabilities	236	(236)	–

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

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

Impact on consolidated statement of cash flows

	As reported	Reclassification	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Operating activities			
Decrease in contract liabilities	742	(742)	–
Decrease in receipt in advance	–	742	742

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

2.2 HKFRS 9 Financial Instruments

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

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.2 HKFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit-impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances exceeding RMB600,000, the remaining balances are grouped based on past due analysis.

Except for those which had been determined as credit-impaired under HKAS 39, ECL for other financial assets at amortised cost, including amount due from ultimate holding company, bank balances and cash and other receivables are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated profits.

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

		Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
				RMB'000	RMB'000
1.	Trade receivables	Loans and receivables	Financial assets at amortised cost	19,837	19,837
2.	Amount due from ultimate holding company	Loans and receivables	Financial assets at amortised cost	18	18
3.	Other receivables	Loans and receivables	Financial assets at amortised cost	634	634
4.	Bank balances and cash	Loans and receivables	Financial assets at amortised cost	44,638	44,638
5.	Trade payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	8,383	8,383
6.	Other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	3,213	3,213

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

New and amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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

HKFRS 16 Leases *(Continued)*

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows respectively by the Group.

The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB2,800,000 as disclosed in note 23. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately RMB23,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue

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

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

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

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

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

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

Revenue recognition (prior to 1 January 2018)

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

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

Goods, interests and dividends

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

Dividend income from investments is recognised when the rights to receive payment have been established.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

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

When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currency) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans including state-managed retirement benefit schemes in the PRC and Mandatory Provident Fund Scheme in Hong Kong are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax 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 differences 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 (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

Intangible assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

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

Financial assets

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

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

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

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amount due from ultimate holding company, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

(i) Significant increase in credit risk

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

(i) Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Amount due from ultimate holding company is assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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

(i) Loans and receivables

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

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

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

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

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 average credit period of 90 days, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables and receipt in advance are subsequently measured at amortised cost, using the effective interest method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 3, 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and identified impairment losses. The estimation of their useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on an individual asset basis or in groups of similar assets, as applicable. This process requires management's estimate of futures cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying amounts are written down to the recoverable amount and the amount of the write-down is charged to profit or loss. As at 31 December 2018, the carrying amount of property, plant and equipment of the Group was approximately RMB18,719,000 (without accumulated impairment loss) (2017: approximately RMB19,932,000 (without accumulated impairment loss)).

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The amount written off to the profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recovered, significant judgements are required. In making this judgement, the Group evaluates, among other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer preference and competitor actions in response to market conditions. As at 31 December 2018, the carrying amount of inventories is approximately RMB4,153,000, net of write-down of inventory of nil (2017: carrying amount of approximately RMB4,113,000, net of write-down of inventory of approximately RMB60,000).

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

Key sources of estimation uncertainty *(Continued)*

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 15.

5. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	2018	2017
	RMB'000	RMB'000
Types of products — at point in time recognition:		
Sales of printing products	**43,821**	47,461
Sales of woven labels	**21,461**	26,190
Sales of printed labels	**24,238**	23,847
Others	**9,419**	5,309
	98,939	102,807

Types of customers

	2018	2017
	RMB'000	RMB'000
Garment brand companies	**2,110**	3,143
Sourcing companies designated by garment brand companies	**19,301**	18,007
Garment manufacturers	**77,528**	81,657
	98,939	102,807

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

The Group sells garment accessories directly to customers and revenue is recognised when control of the goods has transferred, being when the goods have been shipped from the warehouse (delivery). Following delivery, customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 90 days upon delivery.

Information reported to the chief executive officer of the Group, being the chief operating decision maker ("**CODM**") regularly review revenue analysis by major products as set out in the revenue analysis above for the purpose of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete consolidated financial statements is regularly reviewed by the CODM for the purpose of resource allocation and assessment of performance of respective businesses which generate different types of revenue. The CODM reviews the operating results of the Group as a whole to make decisions about resource allocation and for performance assessment. The operation of the Group constitutes one single operating and reportable segment under HKFRS 8 "*Operating Segments*" and accordingly no separate segment information is presented.

Geographical information

Revenue by geographical location

The Group's operations are located in the PRC. All of the Group's non-current assets and capital expenditure are located or utilised in the PRC.

Information about major customers

Revenue from a customer that individually contributing over 10% of the total sales are as follows:

	2018 **RMB'000**	2017 RMB'000
Customer A	**20,197**	18,007

6. OTHER INCOME, GAINS AND LOSSES

	2018 **RMB'000**	2017 RMB'000
Bank interest income	**70**	41
Government subsidies	**–**	1
Loss on disposal of property, plant and equipment	**(31)**	–
Exchange gain (loss), net	**1,063**	(466)
Others	**167**	161
	1,269	(263)

7. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
Provision for the year	**1,822**	3,550
Under(over)provision in prior years	**39**	(93)
	1,861	3,457
Withholding tax	**–**	945
Deferred tax (note 19) — current year	**–**	(945)
	1,861	3,457

The Group is not subject to any income tax in the Cayman Islands and the BVI pursuant to the rules and regulations in those jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the year ended 31 December 2018 (2017: nil).

The Group is subject to the PRC Enterprise Income Tax (the "**PRC EIT**") at a rate of 25% (2017: 25%) and dividend withholding tax at a rate of 5% (2017: 5%) for the year ended 31 December 2018.

Current tax provision represents provision for the PRC EIT.

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

	2018 RMB'000	2017 RMB'000
Loss before tax	**(923)**	(3,006)
Tax at the PRC EIT rate of 25% (2017: 25%)	**(231)**	(752)
Tax effect of income not taxable for tax purpose	**(283)**	(10)
Tax effect of expenses not deductible for tax purpose	**2,261**	4,257
Tax effect of tax losses not recognised	**75**	55
Under(over)provision in prior years	**39**	(93)
Tax expense for the year	**1,861**	3,457

8. LOSS FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 9)	**3,336**	2,588
Other staff costs		
— salaries and wages	**27,131**	22,155
— retirement benefits scheme contribution excluding directors	**2,790**	2,701
Total directors and other staff costs	**33,257**	27,444
Allowance for credit losses	**193**	327
Auditor's remuneration	**922**	985
Cost of inventories recognised as cost of sales	**40,280**	35,984
Depreciation	**3,578**	4,326
Amortisation of intangible assets (included in administrative expenses)	**31**	26
Minimum lease payments under operating leases	**2,786**	2,786
Reversal of allowance for inventories (included in cost of sales)	**(60)**	–

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

Directors' and chief executive's emoluments

Details of the emoluments paid or payable to directors and chief executive are as follows:

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
2018					
Executive directors					
Mr. Lam Kai Yuen	–	878	67	15	960
Mr. Lam Kai Cheong	–	878	67	15	960
	–	1,756	134	30	1,920

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

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Non-executive director					
Mr. Lam	–	878	67	15	960

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION *(Continued)*

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

The non-executive director's emoluments shown above were for his service as director of the Company or its subsidiaries.

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Independent Non-executive directors					
Mr. Ho Yuk Hay	**152**	**–**	**–**	**–**	**152**
Mr. May Yee Wo, Matthew	**152**	**–**	**–**	**–**	**152**
Mrs. So Chan Wai Hang	**152**	**–**	**–**	**–**	**152**
	456	**–**	**–**	**–**	**456**

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
2017					
Executive directors					
Mr. Lam Kai Yuen	–	785	69	16	870
Mr. Lam Kai Cheong	–	651	69	13	733
	–	1,436	138	29	1,603

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

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Non-executive director					
Mr. Lam	–	668	69	14	751

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION *(Continued)*

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

The non-executive director's emoluments shown above were for his service as director of the Company or its subsidiaries.

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Independent Non-executive directors					
Mr. Ho Yuk Hay	78	–	–	–	78
Mr. May Yee Wo, Matthew	78	–	–	–	78
Mrs. So Chan Wai Hang	78	–	–	–	78
	234	–	–	–	234

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

The non-executive director's emoluments shown above were for his service as director of the Company or its subsidiaries.

Executive directors and non-executive director of the Group are entitled to bonus payments which based on the Group's performance for the relevant year.

Employees' remuneration

The five highest paid employees of the Group during the year included three directors (2017: three directors), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**1,280**	1,417
Retirement benefits scheme contribution	**30**	31
	1,310	1,448

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION *(Continued)*

Employees' remuneration *(Continued)*

Their emoluments fell within the following bands:

	2018 Number of employees	2017 Number of employees
Nil to HK$1,000,000 (Equivalent to Nil to RMB800,000)	**2**	2

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

10. DIVIDEND

No dividend in respect of the year ended 31 December 2018 were declared and approved by the directors.

During the year ended 31 December 2017, special dividends in respect of the year ended 31 December 2016 of HK$80,000 (approximately RMB70,880) per ordinary share, in aggregate of HK$8,000,000 (approximately RMB7,137,000) were declared and approved by the directors.

11. LOSS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Loss:		
Loss for the year attributable to owners of the Company for the purpose of calculating basic loss per share	**(2,784)**	(6,463)

	2018 '000	2017 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**800,000**	689,315

No diluted loss per share is presented for the years ended 31 December 2018 and 2017 as there were no potential ordinary share in issue.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2017 has been taken into account the assumption that the capitalisation issue had been effective on 1 January 2017 and the issuance of shares upon initial public offering as described more fully in note 20.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Machinery	Motor vehicles	Office equipment	Furnitures and fixtures	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2017	12,277	33,007	1,608	4,921	967	52,780
Additions	–	3,130	–	67	79	3,276
At 31 December 2017	12,277	36,137	1,608	4,988	1,046	56,056
Additions	95	1,946	223	139	–	2,403
Disposal	–	(97)	(261)	(24)	(1)	(383)
At 31 December 2018	12,372	37,986	1,570	5,103	1,045	58,076
ACCUMULATED DEPRECIATION						
At 1 January 2017	4,621	21,744	920	3,725	788	31,798
Provided for the year	1,228	2,407	163	452	76	4,326
At 31 December 2017	5,849	24,151	1,083	4,177	864	36,124
Provided for the year	1,233	1,818	188	313	26	3,578
Eliminated on disposal	–	(88)	(235)	(21)	(1)	(345)
At 31 December 2018	7,082	25,881	1,036	4,469	889	39,357
CARRYING VALUES						
At 31 December 2018	5,290	12,105	534	634	156	18,719
At 31 December 2017	6,428	11,986	525	811	182	19,932

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	10%
Machinery	10%–50%
Motor vehicles	20%
Office equipment	20%
Furnitures and fixtures	20%

13. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2017 and 31 December 2017	288
Addition	290
At 31 December 2018	578
AMORTISATION	
At 1 January 2017	170
Provided for the year	26
At 31 December 2017	196
Provided for the year	31
At 31 December 2018	227
CARRYING VALUES	
At 31 December 2018	351
At 31 December 2017	92

The intangible assets represent computer softwares acquired from independent third parties, which have finite useful lives of 10 years and are amortised on a straight-line basis.

14. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**3,046**	3,294
Work in progress	**452**	524
Finished goods	**655**	295
	4,153	4,113

15. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Trade receivables	**14,845**	20,382
Less: allowance for credit losses	**(738)**	(545)
	14,107	19,837
Other receivables	**1,568**	634
Prepayments	**667**	671
	2,235	1,305

As at 31 December 2018 and 1 January 2018, all trade receivables are from contracts with customers.

The Group allows credit periods ranging from 30 to 90 days to its trade customers. Before accepting any new customer, the Group makes enquiries to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customer are reviewed annually. The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Within 90 days	**13,538**	17,466
91–180 days	**326**	746
181–365 days	**243**	1,117
Over 365 days	**–**	508
	14,107	19,837

As at 31 December 2018, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of approximately RMB1,606,000 (2017: RMB3,975,000) respectively which are past due as at the end of reporting period. Out of the past due balances, approximately RMB367,000 (2017: RMB1,863,000) has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collaterals over these balances.

15. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

Aging of trade receivables which are past due based on invoice date but not impaired:

	2017 RMB'000
Overdue:	
Within 90 days	2,112
91–180 days	766
181–365 days	589
Over 365 days	508
	3,975

At as 31 December 2017, except for the trade receivables aged over 365 days of approximately RMB508,000 which have been subsequently settled over 90% after the end of the reporting period, the Group has provided fully for all receivables over 365 days for both years because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for doubtful debts

	2017 RMB'000
Balance at beginning of the year	218
Impairment losses recognised on trade receivables	327
Balance at end of the year	545

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 22.

16. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount is unsecured, non-trade nature, interest-free and recoverable on demand. The maximum outstanding during the year ended 31 December 2017 is approximately RMB18,000.

The amount has been settled during the current year.

17. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates at 0.35% (2017: 0.35%) per annum as at 31 December 2018.

18. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**4,825**	8,383
Other payables	**3,336**	3,213
Other accrued expenses	**1,798**	2,136
	5,134	5,349

The credit period on trade payables ranging from 30 to 90 days. The aging analysis of the Group's trade payables below is presented based on the invoice date at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Within 90 days	**4,505**	8,001
91–180 days	**150**	259
181–365 days	**27**	26
Over 1 year	**143**	97
	4,825	8,383

19. DEFERRED TAX LIABILITY

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

	Withholding tax on distributable profits
	RMB'000
At 1 January 2017	1,000
Credit to profit or loss (note 7)	(945)
At 31 December 2017	55
Credit to profit or loss (note 7)	–
At 31 December 2018	55

Under the Law of the PRC on Enterprise Income Tax, withholding tax ranged from 5% to 10% is proposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards.

As at 1 January 2017, deferred tax liability amounting to RMB1,000,000 has been provided for in respect of temporary differences attributable to profit of a PRC subsidiary of RMB18,500,000, as the Group expected such amount would be distributed by the PRC subsidiary to a non-PRC tax resident subsidiary in 2017.

During the year ended 31 December 2017, a profit of RMB18,900,000 has been distributed by the PRC subsidiary to a non-PRC tax resident subsidiary. 5% of withholding tax has been imposed by the PRC government to the Group and accordingly, RMB945,000 withholding tax has been paid in relation to the profit distributed by the PRC subsidiary.

Deferred tax has not been provided for temporary differences attributable to the remaining accumulated undistributed profits of two PRC subsidiaries amounting to an aggregate amount of approximately RMB30,330,000 (2017: RMB27,619,000) as the directors of the Group do not expect to declare any additional dividends during 2018 (2017: RMB18,900,000) as mentioned above and the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2018, the Group has unused tax losses of approximately RMB518,000 (2017: RMB220,000), available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses of approximately RMB298,000 and RMB220,000 will be expired in 2023 and 2022, respectively (2017: RMB220,000 will be expired in 2022).

20. SHARE CAPITAL

	Number of shares	HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017	38,000,000	380,000
Increased in authorised share capital on 24 June 2017	1,962,000,000	19,620,000
At 31 December 2017 and 31 December 2018	2,000,000,000	20,000,000
Issued and fully paid:		
At 1 January 2017	100	1
Capitalisation issue (note a)	599,999,900	5,999,999
Issuance of shares (note b)	200,000,000	2,000,000
At 31 December 2017 and 31 December 2018	800,000,000	8,000,000

	2018 RMB'000	2017 RMB'000
Shown in the consolidated financial statements as	**6,890**	6,890

Notes:

(a) On 21 July 2017, pursuant to the written resolution of the sole shareholder passed on 24 June 2017, the issue of 599,999,900 new shares was made upon capitalisation of the amount of HK$5,999,999 standing to the credit of the share premium account of the Company.

(b) On 21 July 2017, the Company issued 200,000,000 new shares at HK$0.3 per share for a total gross proceeds of approximately HK$60,000,000 by way of initial public offering of the Company on the Stock Exchange. The proceeds of HK$8,000,000, equivalent to RMB6,890,000, representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$52,000,000, equivalent to RMB44,785,000, before issuing expenses, were credited to share premium account of the Company.

21. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt net of cash and cash equivalents and equity.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

22. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial asset at amortised cost	**57,398**	65,127
Financial liabilities		
Amortised cost	**8,161**	11,596

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, bank balances and cash, trade payables and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and foreign currency risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. Details of each type of market risks are described as follows:

(i) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

The directors of the Company consider that the overall interest rate risk is not significant as all the bank deposits are short term. Accordingly, no sensitivity analysis is prepared.

(ii) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currencies of the Group entities, including Hong Kong dollars ("HK$"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2018, if RMB had strengthened 5 per cent against HK$ with all other variables held constant, consolidated loss after tax would have been approximately RMB672,000 higher (2017: consolidated loss after tax would have been approximately RMB904,000 higher), arising mainly as a result of the foreign exchange loss on bank balances (2017: foreign exchange loss on bank balances) denominated in HK$.

22. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligation at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables and bank balances.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. The Group reviews the recoverable amount of each individual material trade and other receivable at the end of the reporting period. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables individually or based on provision matrix. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

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 has concentration of credit risk as the top five trade debtors accounted for approximately 50% of its total trade debts balance as at 31 December 2018 (2017: 44%). In view of this, the management of the Group regularly visits these customers to understand their business operations and cash flow positions. In this regard, management of the Group considers that the credit concentration risk has been significantly mitigated.

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

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

22. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB600,000 respectively as at 31 December 2018 were assessed individually.

Gross carrying amount

	Average loss rate	Trade receivables
		RMB'000
Current (not past due)	–	–
1–90 days	5%	1,304
91–180 days past due	10%	366
181–365 days past due	50%	76
More than 365 days past due	100%	598
		2,344

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided approximately RMB738,000 impairment allowance for trade receivables, based on the provision matrix.

22. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment *(Continued)*

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

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	–	545	545
Adjustment upon application of HKFRS 9	–	–	–
As at 1 January 2018 — As restated	–	545	545
Changes due to financial instruments recognised as at 1 January:			
— Impairment losses recognised	–	401	401
— Impairment losses reversed	–	(208)	(208)
As at 31 December 2018	–	738	738

Liquidity risk

In the management of the liquidity risk, the Group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of amounts due to related parties and subsidiaries.

22. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its 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. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

	Weighted average effective interest rate	Repayment on demand or less than 3 months	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000
2018				
Trade and other payables	–	**8,161**	**8,161**	**8,161**
2017				
Trade and other payables	–	11,596	11,596	11,596

c. Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

23. OPERATING LEASE COMMITMENTS

As lessee

	2018	2017
	RMB'000	RMB'000
Minimum lease payments under operating leases during the year in respect of premises owed by		
— related parties	**2,726**	2,726
— independent third party	**60**	60
	2,786	2,786

For the year ended 31 December 2018

23. OPERATING LEASE COMMITMENTS

As lessee *(Continued)*

At the end of 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory and office which fall due as follows:

	2018		
	Premises owned by related party RMB'000	**Premises owned by independent third parties RMB'000**	**Total RMB'000**
Within one year	**2,726**	**49**	**2,775**
In the second to fifth year inclusive	**–**	**25**	**25**
	2,726	**74**	**2,800**

At the end of 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory and office which fall due as follows:

	2017		
	Premises owned by related parties RMB'000	Premises owned by independent third party RMB'000	Total RMB'000
Within one year	2,726	30	2,756
In the second to fifth year inclusive	1,509	–	1,509
	4,235	30	4,265

Operating lease payments represent rentals payable to related parties and independent third parties by the Group for certain of its premises. Leases are negotiated for terms ranging from one to three years (2017: two to three years) and rentals are fixed over the terms of the leases.

24. EMPLOYEE BENEFITS

Hong Kong

The Group participated in Mandatory Provident Fund Scheme ("**MPF Scheme**") for all its qualifying employees from year 2017. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year ended 31 December 2018, the retirement benefits scheme contribution arising from the MPF Scheme charged to profit or loss was approximately RMB142,000 (2017: RMB117,000).

The PRC

In accordance with the relevant rules and regulations of the PRC, the Group's PRC subsidiaries are required to make contributions to the retirement fund administered by the PRC government at 13% of the total monthly basic salaries of the current employees.

In addition, the Group's PRC subsidiaries are required by law to contribute 13.5% to 21.5% of basic salaries of the employees for social insurance in relating to staff welfare, medical, work injury and unemployment.

During the year ended 31 December 2018, the costs charged under such arrangements for the Group's PRC subsidiaries amounted to approximately RMB2,693,000 (2017: RMB2,670,000).

25. RELATED PARTY TRANSACTION

Apart from details of the balances with related parties disclosed in the consolidated financial statements, the Group also entered into the following transaction with related party during the year ended 31 December 2018:

Name of related company/party	Note	Nature of transaction	2018 RMB'000	2017 RMB'000
史威特服飾(惠州)有限公司	(i)	Rental paid	**2,726**	2,726

Notes:

(i) Mr. Lam, has beneficial interest in this company.

Compensation of key management personnel

The remuneration of key management personnel during the year was approximately RMB4,646,000 (2017: RMB4,036,000) which is determined by reference to the performance of individuals and market trends.

No short-term employee benefits, post-employment benefits, other long term benefits and termination benefits are paid or payable to the key management personnel.

Balances with related companies are disclosed in the consolidated statement of financial position and note 16.

26. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

The Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Date of incorporation/ establishment	Place of incorporation/ establishment	Legal form	Issued and fully paid-up share capital/ registered capital	Equity interests attributable to the Company as at December 2018	2017	Principal activities
Direct							
New Forest Company Limited	1 December 2015	BVI	Private enterprise with limited liability	US$1 (2017: US$1)	**100%**	100%	Investment holding
Indirect							
Smart Trend Enterprises Company Limited	15 April 2016	Hong Kong	Private enterprise with limited liability	HK$1 (2017: HK$1)	**100%**	100%	Investment holding
新天倫服裝輔料(惠州)有限公司	29 April 2007	PRC	Foreign investment enterprise with limited liability	US$1,000,000 (2017: US$1,000,000)	**100%**	100%	Manufacturing and sale of garment accessories
新天倫服裝配料(惠州)有限公司	31 December 2001	PRC	Foreign investment enterprise with limited liability	US$2,400,000 (2017: US$2,400,000)	**100%**	100%	Manufacturing and sale of garment accessories

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

27. SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 24 June 2017 (the "**Scheme**"). The terms of the Scheme are in accordance with the provision of Chapter 23 of the GEM Listing Rules.

No share option was granted or remained outstanding under the Scheme during both years since the adoption of the Scheme.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The Group has no financing activity for the year ended 31 December 2018.

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

	Dividend payable RMB'000	Accrued issued costs RMB'000	Amounts due to directors RMB'000	Total RMB'000
At 1 January 2017	–	8,010	4,321	12,331
Financing cash flows (note)	(7,137)	(8,010)	(4,321)	(19,468)
Dividend declared	7,137	–	–	7,137
At 31 December 2017	–	–	–	–

Note: The cash flows from dividend payable, transactions costs paid for issuance of shares and advance from directors and repayment to directors make up the net amount of proceeds and repayments in the consolidated statement of cash flows.

29. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2018	2017
	RMB'000	RMB'000
NON-CURRENT ASSET		
Investment in subsidiaries	**48,429**	48,429
CURRENT ASSETS		
Prepayments and other receivables	**133**	132
Amounts due from subsidiaries	**4,269**	–
Bank balances and cash	**19,684**	26,102
	24,086	26,234
CURRENT LIABILITIES		
Other payables	**922**	750
Amounts due to subsidiaries	**1,913**	3,179
	2,835	3,929
NET CURRENT ASSETS	**21,251**	22,305
NET ASSETS	**69,680**	70,734
CAPITAL AND RESERVES		
Share capital (note 20)	**6,890**	6,890
Reserves (note (a))	**62,790**	63,844
	69,680	70,734

Note a:

	Share premium	**Accumulated losses**	**Capital reserve**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	–	(2,413)	48,429	46,016
Loss and total comprehensive expense for the year	–	(11,810)	–	(11,810)
Dividend paid	–	(7,137)	–	(7,137)
Issuance of shares	49,953	–	–	49,953
Capitalisation issue	(5,168)	–	–	(5,168)
Transaction costs paid for issuance of shares	(8,010)	–	–	(8,010)
At 31 December 2017	36,775	(21,360)	48,429	63,844
Loss and total comprehensive expense for the year	–	(1,054)	–	(1,054)
At 31 December 2018	**36,775**	**(22,414)**	**48,429**	**62,790**

30. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a wholly owned subsidiary of the Group and an independent third party established a company in the PRC, namely, 安滿新達(上海)服裝有限公司, of which the Group holds 10% equity interest for investment purpose. The registered capital of 安滿新達(上海)服裝有限公司 to be contributed by the Group is RMB1.0 million. 安滿新達(上海)服裝有限公司 will be engaged in the business of garments, garments related products and accessories trading in the PRC.

FOUR YEARS' FINANCIAL SUMMARY

The summary of the consolidated results of Reach New Holdings Limited (the "Company") and its subsidiaries (collectively referred to the "Group") for each of the two years ended 31 December 2015 and 2016 and of the assets, liabilities as at 31 December 2015 and 2016 have been extracted from the Prospectus. The consolidated results of the Group for the year ended 31 December 2017 and 2018 and the consolidated assets and liabilities of the Group as at 31 December 2017 and 2018 are set out in the audited consolidated financial statements.

RESULTS

	Year ended 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**98,939**	102,807	105,199	95,609
(LOSS) PROFIT BEFORE TAXATION	**(923)**	(3,006)	15,346	8,696
Income tax expense	**(1,861)**	(3,457)	(5,715)	(2,582)
(LOSS) PROFIT FOR THE YEAR	**(2,784)**	(6,463)	9,631	6,114

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**82,398**	89,935	67,390	64,554
TOTAL LIABILITIES	**(10,639)**	(15,392)	(22,912)	(29,707)
	71,759	74,543	44,478	34,847
EQUITY:				
Equity attributable to owners of the Company	**71,759**	74,543	44,478	34,847
	71,759	74,543	44,478	34,847