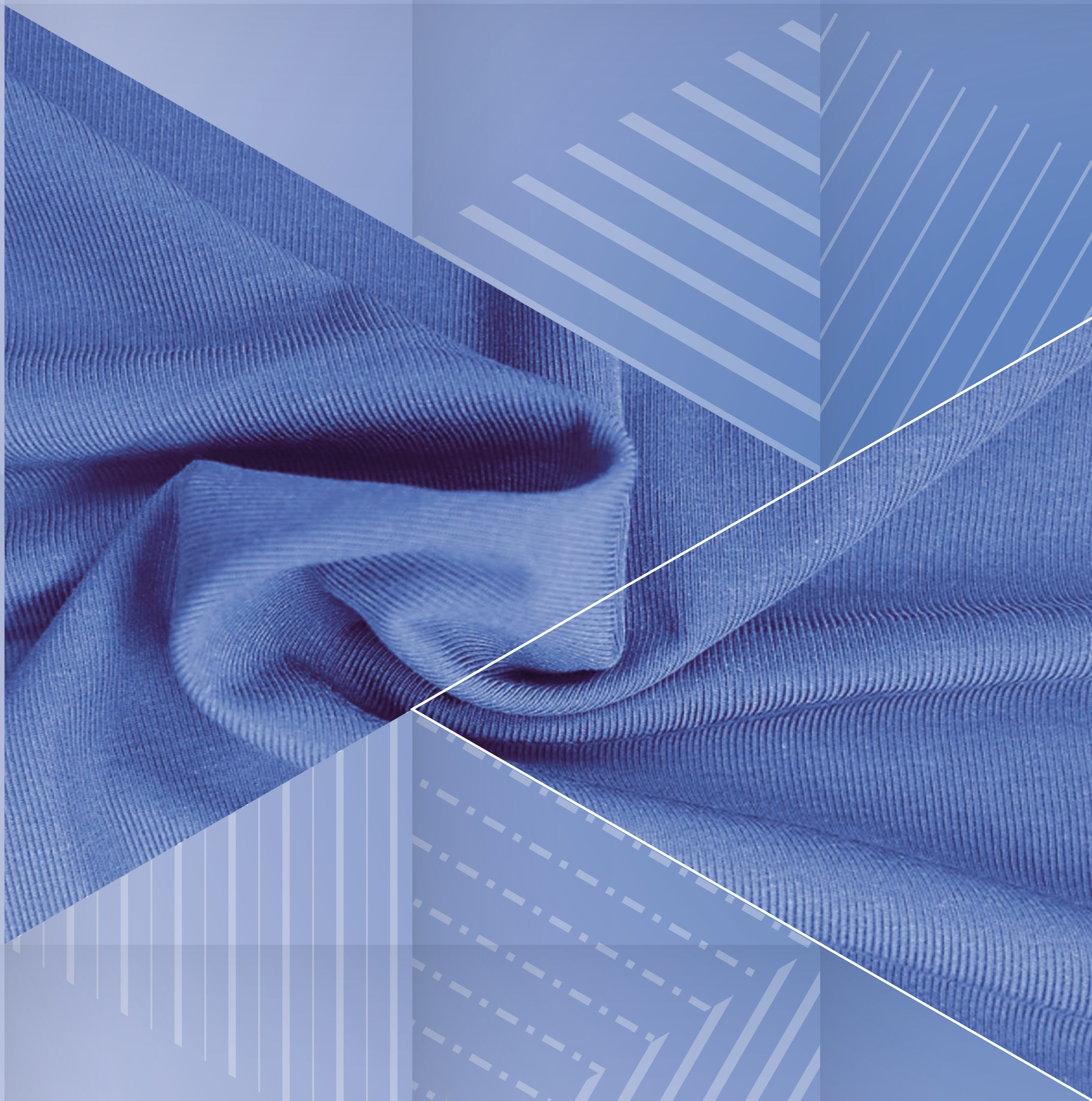
ST International Holdings Company Limited
智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8521



Annual Report
2019

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

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Wong Kai Hung Kelvin *(Chairman)*
Mr. Xi Bin

Non-executive Director
Mr. Hung Yuk Miu

Independent non-executive Directors
Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE OFFICER

Mr. Wong Kai Hung Kelvin

COMPANY SECRETARY

Mr. Chan Chi Yeung, CPA

AUTHORISED REPRESENTATIVES

Mr. Wong Kai Hung Kelvin
Mr. Chan Chi Yeung

REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1006, 10/F., Centre Point,
181-185 Gloucester Road,
Wan Chai, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

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

LEGAL ADVISOR

LCH Lawyers LLP
Room 702,
Admiralty Centre Tower One,
18 Harcourt Road,
Admiralty,
Hong Kong

COMPLIANCE ADVISER

First Shanghai Capital Limited
19/F, Wing On House,
71 Des Voeux Road Central,
Hong Kong

PRINCIPAL BANKERS

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

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

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

COMPANY'S WEBSITE

www.smart-team.cn

STOCK CODE

8521

Financial Summary

For the five years ended 31 December 2015, 2016, 2017, 2018 and 2019

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**191,180**	173,461	125,275	80,250	64,104
Cost of sales	**(129,912)**	(109,659)	(80,379)	(45,034)	(40,934)
Gross profit	**61,268**	63,802	44,896	35,216	23,170
Other income	**1,836**	1,570	1,734	502	1,846
Selling and distribution expenses	**(5,286)**	(4,740)	(2,931)	(3,380)	(2,502)
Administrative and other expenses	**(19,192)**	(30,494)	(17,714)	(9,828)	(8,482)
Reversal of impairment loss/(impairment loss) on trade receivables	**57**	(98)	–	–	–
Finance costs	**(338)**	(343)	(215)	(94)	–
Profit before tax	**38,345**	29,697	25,770	22,416	14,032
Income tax	**(3,353)**	(5,530)	(5,595)	(3,872)	(1,912)
Profit for the year	**34,992**	24,167	20,175	18,544	12,120

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**30,717**	13,721	3,780	2,840	3,097
Current assets	**152,962**	151,418	98,874	58,316	39,500
Non-current liabilities	**820**	1,030	1,070	105	171
Current liabilities	**15,555**	27,214	44,958	27,675	25,591
Net assets	**167,304**	136,895	56,626	33,376	16,835

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
CASH FLOWS					
Net cash generated from operating activities	**14,161**	15,128	(7,549)	8,501	12,945
Net cash used in investing activities	**(12,674)**	(9,990)	(1,013)	(3,316)	(1,779)
Net cash (used in)/generated from financing activities	**(6,126)**	54,229	(5,711)	572	(10,277)
Net (decrease)/increase in cash and cash equivalents	**(4,639)**	59,367	(14,273)	5,757	889
Cash and cash equivalents at beginning of the year	**61,026**	3,119	16,657	11,984	11,500
Effect of exchange rate changes	**(1,232)**	(1,460)	735	(1,084)	(405)
Cash and cash equivalents at end of the year	**55,155**	61,026	3,119	16,657	11,984

Chairman Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 ("**FY2019**").

With regards to our financial performance for FY2019 as compared with the year ended 31 December 2018 ("**FY2018**"), our revenue increased by HK$17,719,000 or 10.2% from HK$173,461,000 to HK$191,180,000.

The profit for the year of the Company in FY2019 was HK$34,992,000. This represents an increase of HK$10,825,000 or 44.8% from the profit of HK$24,167,000 in FY2018.

As reflected by the financial performance, the Group recorded a significant growth of profits in FY2019. The significant growth in FY2019 is mainly attributed to the increase in sales orders from existing major customers, the introduction of new customers during FY2019 as well as the absence of a one-off listing worsened when compared with FY2019, expenses of HK$10.9 million incurred during FY2018.

Looking ahead, the recent outbreak of coronavirus disease 2019 ("**COVID-19**") since January 2020 affecting the People's Republic of China (the "**PRC**") and Hong Kong, and subsequently various other countries and regions, has, to a certain extent, affected the Group's operational and financial performance, as well as the market in general, especially in the first quarter of 2020. The continuous negotiations of the China US trade war may also affect the Group's performance in 2020. Despite the current challenging market and environment, the directors of the Company remain positive that the disruptions caused by and the impact of COVID-19 outbreak will not be permanent in nature, management of the Company will continue to strengthen the Group's position in research and development of the new functional fabrics as well as expanding into different overseas markets and market segments by strengthening the marketing and sales efforts.

In the long run, the Group is positioned to capture the growing business opportunities and steady long-term growth momentum of the functional fabrics market in the PRC and overseas by continuing development of new functional fabrics and upgrading our standards of quality on the functional fabrics.

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

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 25 March 2020

Management Discussion and Analysis

BUSINESS REVIEW

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

During FY2019, the Group has continued to grow its business through promoting existing functional knitted fabrics and yarns and introducing new customers. The Group has also continued to recruit new talented sales and marketing executives to develop new markets during FY2019.

OUTLOOK AND PROSPECTS

Management of the Company is of the view that the recent global outbreak of COVID-19 has, to a certain extent, affected the business and operation of the Group. The global epidemic has resulted in lockdowns and disruption of transportations in various countries and regions as well as a downward pressure in the global economy. Some of the Group's suppliers have suffered a reduction in their productivity in February 2020 but have been mostly resumed to usual in March 2020. There has also been certain reduction in demand of our products from our customers in the first quarter of 2020 and the Board expects the demand will resume normal in the second quarter of 2020.The continuous negotiations of China US trade war may also affect the Group's performance in 2020, However, management of the Group is closely monitoring the market situation and continuously evaluating the impact of the epidemic to the Group's operation and financial performance and will make adjustments to the Group's business plan and operations, if necessary, so as to minimise any impact on the Group. As at the date of this report, the Board is not aware of any significant adverse impact caused by COVID-19 on our supply chains or our sales to major customers, the procurement and sales of the Group have been back to usual. The Group will continue to devote more resources towards the research and development of functional knitted fabrics as well as the dyeing methodology. The Group will focus on the following business strategies: (i) to strengthen the Group's market position in the PRC by improving its product offering; (ii) to expand into different market segments and overseas market by strengthening the Group's marketing efforts; and (iii) to recruit talents to support the Group's future growth.

FINANCIAL REVIEW

Revenue

The following table sets forth an analysis of our revenue by products during FY2019 and FY2018.

	2019 ***HK$'000***	2018 *HK$'000*
Sales of functional knitted fabrics	**142,528**	156,384
Sales of apparel	**17,487**	17,055
Sales of yarns	**31,165**	22
	191,180	173,461

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

The Group's revenue increased by HK$17,719,000 or 10.2%, from HK$173,461,000 for FY2018 to HK$191,180,000 for FY2019. The increase was mainly due to the increase in revenue from sales of yarns which was resulted from the increase in sales orders from the existing major customers as well as the introduction of new customers during FY2019.

Gross profit and gross profit margin

Our gross profit slightly decreased by HK$2,534,000, or 4.0% from HK$63,802,000 for FY2018 to HK$61,268,000 for FY2019. The decrease was mainly due to the increase in sales of products with lower gross profit margin. Our gross profit margin decreased from 36.8% for FY2018 to 32.0% for FY2019.

Other income

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

Selling and distribution expenses

The Group's selling and distribution expenses slightly increased by HK$546,000, or 11.5%, from HK$4,740,000 for FY2018 to HK$5,286,000 for FY2019 which was mainly due to increase in advertising expenses offset by decrease in staff cost caused by decrease in number of staff compared with FY2018.

Administrative and other expenses

The Group's administrative and other expenses decreased significantly by HK$11,302,000, or 37.1%, from HK$30,494,000 for FY2018 to HK$19,192,000 for FY2019. The decrease was mainly due to the combined effects of (i) the absence of the one-off listing expenses of HK$10,856,000 incurred in FY2018; (ii) the decrease in entertainment expenses due to tighten control in expenses; and (iii) the decrease in staff cost as a result of decrease in number of staff.

Finance costs

Our finance costs slightly decreased by HK$5,000 or 1.5% from HK$343,000 for FY2018 to HK$338,000 for FY2019.

Taxation

Our income tax expenses decreased significantly from HK$5,530,000 for FY2018 to HK$3,353,000 for FY2019; and our effective tax rate (excluding the non-recurring listing expenses) decreased from 13.6% for FY2018 to 8.7% for FY2019, which can be attributed to (i) super-deduction of research and development expenses for the PRC's corporate income tax; (ii) recognition of deferred tax assets on prior years' tax loss in two subsidiaries in the PRC; and (iii) reversal of over-provided withholding tax on undistributed profit of the subsidiaries in the PRC.

Profit for the year attributable to owners of the Company

As a result of the foregoing, the profit for the year attributable to owners of the Company increased from HK$24,281,000 for FY2018 to HK$34,992,000 for FY2019. Excluding the effect of non-recurring listing expenses of HK$10,856,000 for FY2018, the Group has recorded a stable profit attributable to owners of the Company with HK$35,137,000 in FY2018 and HK$34,992,000 for FY2019.

FINANCIAL REVIEW *(Continued)*

Cash flows

The net cash generated from operating activities during FY2019 was about HK$14,161,000 while the net cash generated from operating activities during FY2018 was about HK$15,128,000. The decrease in cash generated from operating activities was mainly due to increase in revenue and profit for the year.

The net cash used in investing activities in FY2019 was about HK$12,674,000 while the net cash used in investing activities in FY2018 was about HK$9,990,000. The increase was mainly due to increase in deposit paid for the acquisition of plant and equipment of HK$14,000,000 during FY2019.

The net cash used in financing activities was HK$6,126,000 in FY2019 while the net cash generated from financing activities in FY2018 was HK$54,229,000. The decrease was mainly due to repayment of bank borrowing in FY2019 and absence of proceeds from the listing on GEM of the Stock Exchange in FY2018.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operation mainly through cash generated from our operating activities. As at 31 December 2019 and 2018, we had cash and cash equivalents of HK$55,155,000 and HK$61,026,000 respectively.

As at 31 December 2019, the Group had no outstanding bank borrowing (2018: had outstanding bank borrowing of HK$5,535,000 which was repayable on demand). As at 31 December 2018, the Group's borrowings were denominated in Renminbi ("**RMB**").

The Group's gearing ratio, which is calculated based on the total debt (defined as the sum of bank borrowings and overdrafts) as at the respective year end divided by total equity as at the respective year end was nil in percentage and 4.0% as at 31 December 2019 and 2018 respectively.

CAPITAL STRUCTURE

As at 31 December 2019, the capital structure of the Company comprised issued share capital and reserves.

COMMITMENTS

As at 31 December 2019, the Group had no capital commitment (31 December 2018: had capital commitment of HK$14,000,000 in respect of property and equipment contracted but not provided for).

SEGMENT INFORMATION

An analysis of the Group's revenue of customers is set out in note 6 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investment during FY2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 April 2018 (the "**Prospectus**"), the Group does not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during FY2019.

CONTINGENT LIABILITIES

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

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Directors are aware that the Group is exposed to various types of principal risks and uncertainties as discussed below.

Foreign Exchange Risk

The Group's reporting currency is Hong Kong dollar and most of the business transactions are denominated in other currencies including Renminbi ("**RMB**") and ("**USD**"). Hence, exchange rate fluctuation can affect the profit margin of the Group. Our foreign exchange gains or losses primarily arise from settlement of trade payables denominated in USD and receipt of our trade receivables denominated in RMB. The Group did not use any hedging contracts to engage in speculative activities during FY2019.

Credit Risk

The Group is subject to credit risks of our customers and our liquidity can be affected by timely settlement of our customers. If our customers fails to settle our trade and bill receivables in full or timely within their respective credit period, the Group may incur impairment losses and therefore can adversely affect the financial performance and position. Senior management manages the credit risks by assessing the credit limits and credit terms granted to customers under the internal control system and works with sales and finance departments to monitor closely the financial health and settlement status of customers.

Competition Risk

The functional knitted fabrics market in the PRC is fragmented. Our Group faces intense competition, in terms of pricing, product quality, product innovation, product diversity, research and development and cost efficiency, from existing players and new entrants based in the PRC and other countries. The Group believes that the strong product innovation capabilities on functional knitted fabrics and stringent quality assurance and control measures for product quality will continuously strengthen our competitive advantages in the market.

Risks pertaining to outbreaks of COVID-19

The Group's business has been, to a certain extent, affected by the recent global outbreaks of COVID-19. The global epidemic has resulted in lockdowns and disruptions of transportations in various countries and regions as well as a downward pressure in the global economy. Some of the Group's suppliers have suffered a reduction in their productivity in February 2020. There has also been a slight reduction in the demand of our products from the Group's customers. In the event that the outbreak of COVID-19 is not contained in Hong Kong, China or globally in the near future, the economic activity across many industries in the PRC, Hong Kong or worldwide, can be further adversely affected, which could in turn have negative impact on the overall economy in the PRC, Hong Kong and worldwide. Any economic downturn may adversely affect the consumer sentiment, weakening the demands for our products, and in turn may result in the reduction or even cessation of purchase orders for our products, or delay in payment by our customers.

Management Discussion and Analysis

CHARGES ON GROUP'S ASSETS

As at 31 December 2019, the Group had no bank borrowings. In 2018, the Group's bank borrowings were secured by the pledged bank deposits as set out in notes 21 to the consolidated financial statements.

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group had 74 employees (31 December 2018: 80) and most of them were working in the Dongguan headquarters. We incurred staff costs inclusive of performance related bonus, bonus and directors' emoluments in the aggregate of HK$17,898,000 and HK$18,446,000 for FY2019 and FY2018, respectively. We regularly review the performance of our employees and make reference to such performance reviews in our salary review and promotional appraisal in order to attract and retain talented employees. For our sale staffs, we offer a remuneration package comprising basic salary and performance–based bonus.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to 31 December 2019.

Business objectives up to 31 December 2019 as set out in the Prospectus	Actual implementation plan up to 31 December 2019
Expand our current operations in Beijing and Shanghai	– The Group has purchased office equipment for sales office in Beijing. – The Group has recruited one sales staff, one technical staff and one administrative staff for sales office in Beijing.
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	– The Group has participated in a trade exhibition. – The Group has recruited one sales director and four sales and marketing executives.
Enhance our research and development resources	– The Group has cooperated with our equipment supplier to develop a new research and development machine. – The Group has recruited three research and development technicians to support our strategy to improve and widen our product offerings.
Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	– The Group has cooperated with research institutions and university for research and development. – The Group has recruited two product testing personnel.
Enhance our information technology infrastructure	– The Group is developing a new ERP system.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Use of Proceeds from the Share Offer

The Shares were listed on GEM on 16 May 2018. The net proceeds from the Share Offer (after deducting the underwriting fees and related expenses) amounted to HK$39,900,000 have been and will be used for the intended purposes as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus. The unutilised use of proceeds as at 1 January 2019 amounted to HK$30,100,000. Set out below is the actual use of net proceeds up from the Listing Date to 31 December 2019:

Use of proceeds	Planned use of proceeds as stated in the Prospectus up to 31 December 2019 HK$'million	Actual use of proceeds up to 31 December 2019 HK$'million
Expand our current operations in Beijing and Shanghai	**2.0**	**0.3**
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	**2.0**	**1.3**
Enhance our research and development resources	**11.9**	**11.9**
Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	**5.8**	**0.4**
Enhance our information technology infrastructure	**3.1**	**1.9**

To the extent of the net proceeds of the Share Offer have not been utilised as at 31 December 2019, such unutilised net proceeds were deposited with licensed banks in Hong Kong and are intended to be used in the manner as described in the Prospectus.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Kai Hung Kelvin (黃繼雄), aged 44, founded our Group in October 2011. He was appointed as a Director on 21 February 2017 and became the chairman of our Board and executive Director on 1 April 2017. Mr. Wong is responsible for the overall business strategies, planning, management and operational development of our Group. Mr. Wong is also a director of various subsidiaries of the Company.

Mr. Wong has over 19 years of experience in business administration. From July 1999 to March 2004, Mr. Wong was the general manager of Leahander Group Limited (利興強集團有限公司), an investment holding company, where he was responsible for managing staff, and establishing and accomplishing business objectives. From January 2002 to January 2016, Mr. Wong worked in K&T Investments Limited, a company engaging in manufacturing and distribution of knitted fabrics and an investment holding company, with his last position as the general manager, responsible for managing staff, and establishing and accomplishing business objectives.

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

During the year ended 31 December 2019 and up to the date of this report, Cosmic Bliss Investments Limited ("**Cosmic Bliss**"), a company wholly owned by Mr. Wong, is interested in 360,000,000 Shares. By virtue of the provision of Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss.

Mr. Xi Bin (奚斌), aged 44, joined our Group in October 2011. He was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. He is responsible for managing and overseeing the operations and sales function of our Group and is the chief executive officer of our Group. Mr. Xi is a director of various subsidiaries of the Company

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

NON-EXECUTIVE DIRECTOR

Mr. Hung Yuk Miu (洪育苗), aged 39, was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. Mr. Hung has been re-designated from an executive Director to a non-executive Director with effect from 30 April 2019 primarily due to reallocation of responsibilities amongst the Group's management team. Mr. Hung joined our Group in May 2014 and, prior to re-designation as a non-executive Director, was the chief financial officer of our Group responsible for managing and overseeing the financial management of our Group.

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

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

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

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Heng Henry（伍永亨）, aged 37, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Ng has over 10 years of experience in accounting, auditing and corporate governance. From January 2008 to March 2010, Mr. Ng worked at PricewaterhouseCoopers, an accountancy firm, as the senior associate at Assurance of Financial Services Practice, responsible for the auditing and accountancy procedures of Hong Kong companies. Since September 2010, he has worked at Tony Kwok Tung Ng & Co., an accountancy firm, and was appointed as a principal in January 2013, responsible for reviewing statutory audit files of both local and multinational companies, managing the audit teams and leading the non-audit projects and consulting services.

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

Mr. Ng is also a member of the Appeal Panel (Housing) under section 7A of the Housing Ordinance (Cap. 283); a member of Appeal Board Panel under section 27 of the Urban Renewal Authority Ordinance (Cap. 563); an adjudicator of Immigration Tribunal established under section 53F of the Immigration Ordinance (Cap. 115); and an advisor of Panel of Advisors established under the Film Censorship Ordinance (Cap. 392).

Mr. Sze Irons BBS, JP（施榮懷）, aged 58, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Sze has extensive experience in investment and corporate management. He is also the director of 4 other listed companies in Hong Kong.

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

Mr. Fong Kin Tat（方建達）, aged 45, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company.

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

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

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Li Yanmin（李彥敏）, aged 54, joined our Group in May 2015 as deputy general manager and human resources controller. He is responsible for operating and overseeing the human resources department of our Group.

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

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

Mr. Chan Chi Yeung（陳智揚）, aged 36, joined the Group in April 2019 and has been appointed as the chief financial officer of the Group responsible for overseeing the Group's finance, accounting, investor relations and capital market functions. He was also appointed as the company secretary of the Company (the "**Company Secretary**") on 30 April 2019.

From July 2006 to April 2019, prior to joining the Group, Mr. Chan worked in KPMG Hong Kong, an accountancy firm, and his last position was senior manager, responsible for audit and accounting advisory.

Mr. Chan graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration (double major in finance and marketing) in June 2006. Since January 2010, he has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He has been a chartered certified accountant of the Association of Chartered Certified Accountants since August 2017.

COMPANY SECRETARY

Mr. Chan Chi Yeung（陳智揚）, was appointed as the Company Secretary on 30 April 2019. Please see the paragraph headed "Senior Management" of this section for further details of the biography of Mr. Chan.

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

Corporate Governance Report

INTRODUCTION

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**"). During FY2019 and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code.

THE BOARD

Responsibilities

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

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

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

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

THE BOARD *(Continued)*

Composition

The nomination committee of the Company (the "**Nomination Committee**") ensures the composition of the Board a balance of skills, experiences, qualifications and diversity of perspectives appropriate to the requirements of the business and development of the Company. The current composition of the Board consists of two (2) executive Directors, one (1) non-executive Director ("**NED**") and three (3) independent non-executive Directors ("**INED(s)**"). INEDs are responsible for exercising independent judgment on various Board decisions. The Directors during the year ended 31 December 2019 were set out below:

Executive Directors

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

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

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

Each of the executive Directors has entered into a service contract with the Company for an initial term of three (3) years commencing from the 1 April 2017, subject to retirement and re-election in accordance to the articles of association of the Company (the "**Articles**") and the GEM Listing Rules and terminable by either the Company or the executive Director giving each other three-month notice in writing. Each of the INEDs has entered into a letter of appointment with the Company for an initial term of three (3) years commencing from 23 April 2018 respectively. the NED has entered into a letter of appointment with the Company for an initial term of six (6) months commencing from 30 April 2019 and the term of appointment was further extended for one year with effect from 1 November 2019.

Pursuant to the Article 84(1) and 84(2) of the Articles, each of Mr. Hung Yuk Miu, Mr. Ng Wing Heng Henry, Mr. Sze Irons *BBS JP* and Mr. Fong Kin Tat will retire from the office of Director by rotation and shall, being eligible for re-election at the forthcoming annual general meeting of the Company to be held on Thursday, 28 May 2020 (the "**2020 AGM**"), offer himself for re-election at the 2020 AGM. The Board and the Nomination Committee of the Company have recommended the re-election of all the retiring Directors standing for re-election at the 2020 AGM.

THE BOARD *(Continued)*

Composition *(Continued)*

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

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT *(Continued)*

The individual training record of each Director received during the year ended 31 December 2019 is set out below:

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

BOARD MEETINGS

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

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

BOARD MEETINGS *(Continued)*

Directors and Committee members may participate either in person or through electronic means of communications. Directors and Committee members are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at meetings. Directors and Committee members who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. During the year ended 31 December 2019, the Board scheduled to have at least four regular meetings and at least one meeting for each of the Committees. The individual attendance records of each Director at these meetings are set out below:

	Attendance record of Directors at the meetings					
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	General meeting
Mr. Wong Kai Hung Kelvin	4/4	N/A	3/3	1/1	1/1	1/1
Mr. Xi Bin	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Hung Yuk Miu	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Sze Irons *BBS JP*	4/4	4/4	3/3	1/1	N/A	0/1
Mr. Fong Kin Tat	3/4	3/4	N/A	N/A	1/1	1/1
Mr. Ng Wing Heng, Henry	4/4	4/4	3/3	1/1	1/1	1/1

Besides the above board meetings, the Chairman of the Board, Mr. Wong Kai Hung Kelvin held one directors' meeting with the INEDs without the presence of other directors during FY2019.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

For the year ended 31 December 2019, the members of the Audit Committee met the external auditors for twice, fulfilling the requirement of code provision C.3.3. During the year ended 31 December 2019, the individual attendance records of each member at the meeting of the Audit Committee is set out on page 19 of this annual report.

During the year ended 31 December 2019, four (4) meetings were held by the Audit Committee, two of which with the presence of the external auditor. During the said two meetings, the following major tasks were performed:

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

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

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

d. reviewing the Company's continuing connected transactions for the year ended 31 December 2019 pursuant to the GEM Listing Rules.

AUDIT COMMITTEE *(Continued)*

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the year ended 31 December 2019 and up to the date of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the fee paid/payable to auditor in respect of audit service and/or non-audit services provided by the auditor to the Group were as follows:

Nature of services	2019 HK$'000	2018 HK$'000
Audit services	**700**	700
Non-audit services	**360**	260
Initial public offering	**N/A**	1,290

NOMINATION COMMITTEE

The Nomination Committee is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders and to assess INEDs' independence and commitment.

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

In identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the Board Diversity Policy and the Nomination Policy. While all Board appointments will continue to be made on a merit basis, number of factors will also be taken into account, including but not limited to age, skills, regional and industry experience, cultural and educational background, race, gender and other qualities so as to ensure that the Board was a balance of skills, experiences as well as a diversity of perspectives. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's own business model and specific needs from time to time.

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

During the year ended 31 December 2019, the Nomination Committee was satisfied with the diversity of the existing Board composition and did not, for the time being, set up any measurable objective regarding board diversity.

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

NOMINATION COMMITTEE *(Continued)*

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

CORPORATE GOVERNANCE COMMITTEE

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

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

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

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

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the Board and senior management by band for the FY2019 is set out below:

Remuneration Band	**Number of Individuals**
Nil to HK$1,000,000	6
HK$1,000,001 to HK$2,000,000	2

Of the five individuals with the highest emoluments, 2 of them (FY2018: 3) are our executive Directors. Details of the remuneration of each Director and the five individuals with the highest emoluments in the Group for the year ended 31 December 2019 are set out in notes 11 and 12 to the consolidated financial statements, respectively.

INTEREST OF THE COMPLIANCE ADVISER

The Company and Sunfund Capital Limited ("**Sunfund**") have mutually agreed to terminate the compliance adviser agreement entered into between them dated 7 April 2017 with effect from 28 May 2019, due to changes in personnel of Sunfund. First Shanghai Capital Limited ("**First Shanghai**") has been appointed as the new compliance adviser to the Company as required pursuant to Rule 6A.27 of the GEM Listing Rules with effect from 28 May 2019.

As confirmed by First Shanghai, the Company's compliance adviser, save for the compliance agreement entered into between the Company and First Shanghai dated 28 May 2019, none of First Shanghai or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2019 and up to the date of this report, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPANY SECRETARY

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

Mr. Chan Chi Yeung was appointed as the Company Secretary in April 2019. For his professional qualifications, please refer to the section headed "Biographical Details Of Directors And Senior Management" in this report. He complied with all the required qualifications, experiences and training requirements under the GEM Listing Rules. During the year ended 31 December 2019, the Company Secretary has complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The responsibilities of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report on pages 61 to 62 in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**"). Having made specific enquiry, all Directors have confirmed that they have complied with the Securities Dealing Code for the year ended 31 December 2019 and up to the date of this report.

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

No incident of non-compliance of the Securities Dealing Code and/or the Inside Information Policy was noted by the Company for the year ended 31 December 2019 up to the date of this report.

INTERNAL AUDIT FUNCTION

The Group does not establish a standalone internal audit department. However, the Board has put in place adequate measures to perform the internal audit function in relation to different aspects including (i) the Board has established formal policies to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations and (ii) the Group engaged an external consultant to perform an internal review on certain scope. The internal audit review report is submitted to the Audit Committee for review.

The Group considers that the existing organization structure and close supervision by management and the abovementioned engagement of the external consultant can maintain sufficient risk management and internal control of the Group. The Board will review the need to set up an internal audit function by assessing the size, nature and complexity of the business of the Group from time to time and may set up an internal audit team if the need arises.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

During the year ended 31 December 2019, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The Audit Committee also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review during the year ended 31 December 2019 did not reveal any major issues and the Board considers the risk management and internal control systems effective and adequate.

INVESTOR RELATIONS

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

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

The 2020 AGM of the Company will be held on Thursday, 28 May 2020, the notice of which shall be sent to the Company's shareholders in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

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

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 58 of the Articles, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Putting Forward Enquiries to the Board

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

SHAREHOLDERS' RIGHTS *(Continued)*

Putting Forward Enquiries to the Board *(Continued)*

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

The Company has not made any changes to its Articles during the year ended 31 December 2019. An up-to-date version of the Articles is also available on the Company's website and the Stock Exchange's website.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**") with effect from 1 January 2019. Declaration and payment of dividends by the Company is also subject to compliance with the applicable law and regulations including the laws of the Cayman Island and the articles of association of the Company. The Dividend Policy sets out the factors that the Board will take into account in deciding the declaration of interim dividends, special dividends and final dividends such as the level of cash and retained earnings, the actual and projected financial performance, the projected levels of capital expenditure and other investment plans etc. The Dividend Policy aims at enhancing transparency of the Company and facilitating the Shareholders and investors to make informed investment decisions relating to the Company.

DIVIDEND POLICY *(Continued)*

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

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

CONSTITUTIONAL DOCUMENTS

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

There had been no changes to the Articles during the year.

On behalf of the Board

Wong Kai Hung, Kelvin
Chairman and Executive Director

25 March 2020

The Directors are pleased to present this report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the principal activities of the principal subsidiaries of the Company are set out in note 31 to the consolidated financial statements and an analysis of the Group's performance for the year ended 31 December 2019 is set out in the "Management Discussion and Analysis" section of this report. For future business development, the Group will strengthen its position in research and development of the new functional fabrics as well as expanding different markets and strengthening the marketing and sales efforts to attract new customers.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the five years ended 31 December 2015, 2016, 2017, 2018 and 2019, as extracted from the Prospectus and the consolidated financial statements is set out on page 4 of this report. This summary does not form part of the audited consolidated financial statements of the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2019 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report.

On 25 March 2019, the Board has resolved to recommend a final dividend of HK$1 cent per share for the year ended 31 December 2019 (2018: Nil) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company. The total payout will amount to HK$4.8 million. The final dividend will be payable to the entitled shareholders on or around Tuesday, 30 June 2020.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlement to the proposed final dividend for the year ended 31 December 2019, the register of members of the Company will be closed from Wednesday,3 June 2020 to Friday, 5 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 December 2019, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Tuesday, 2 June 2020 (Hong Kong time).

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the year ended 31 December 2019 in the share capital of the Company are set out in note 25 to the consolidated financial statements of this annual report.

PRE-EMPTIVE RIGHTS

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

RESERVE

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to Shareholders comprised of the share premium, capital reserve and retained profits with an aggregate amount of approximately HK$48,453,000 (2018: HK$49,125,000)

REVIEW OF FINANCIAL INFORMATION

The Audit Committee comprises three INEDs, namely, Mr. Ng Wing Heng Henry, Mr. Sze Irons, *BBS JP*, Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry is the chairman of the Audit Committee. The Audit Committee has reviewed with management regarding the accounting principles and practices adopted by the Group and discussed the internal controls system, risk management system and financial reporting matters including the review of the audited consolidated financial statements and annual results of the Group for the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 30.9% and 59.2% (2018: 35.2% and 71.6%) of the Group's total revenue for the year, respectively.

During the year ended 31 December 2018, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 43.4% and 70.5% (2018: 32.2% and 85.2%) of the Group's total purchase for the year, respectively.

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

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS CUSTOMERS AND OTHER STAKEHOLDERS

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

During the year ended 31 December 2019, there were no material and significant dispute between the Group and its employees, suppliers, customers and/or other stakeholders.

DEED OF NON-COMPETITION

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

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

DIRECTORS

The Directors who held office during the year ended 31 December 2019 and up to the date of this annual report were:

Executive Directors

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

Non-executive Director

Mr. Hung Yuk Miu *(re-designated from executive director to non-executive director on 30 April 2019)*

Independent non-executive Directors

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

In accordance with the Articles, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. For details about the retirement and rotation of Directors, please refer to "Corporate Governance Report – The Board" of this report (page 15).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

INDEPENDENCE CONFIRMATION

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

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for a term of three (3) years which is subject to termination by either party giving not less than three months' written notice and subject to retirement and re-election in accordance to the Articles and the GEM Listing Rules.

Each of the INEDs has entered into a letter of appointment with the Company, respectively. Each of the INED's appointment is for an initial term of three (3) years, commencing from the Listing Date, 23 April 2018, subject to retirement and re-election in accordance to the Articles and GEM Listing Rules and terminable by either party by giving at least three month's written notice to the other. The NED has entered into a letter of appointment with the Company for an initial term of six (6) months commencing from 30 April 2019 and the term of appointment was subsequently extended for one year with effect from 1 November 2019.

All of the executive Directors' service contracts, the NED's letter of appointment and the INED's letters of appointment entered between the Company and the respective Director has been reviewed and ratified by the Nomination Committee. None of the Directors being proposed for re-election at the 2020 AGM has a service contract or letter of appointment with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

As at 31 December 2019, the Group had 74 (2018: 80) employees. The emolument policy of the directors and senior management of the Group is formulated by the Remuneration Committee based on their merit, qualifications and competence. It is the Group's policy to compensate each employee fairly and equitably. The Group has a system for measuring employees' performance against agreed-upon goals with specific performance standards. Performance discussion is carried out on an ongoing basis and a formal evaluation is conducted at least once a year to review employees' overall performance, achievements, and areas in need of improvement. Salary review will be based on both Group's performance and individual performance and subject to the Group's discretion.

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

Details of the emoluments of the Directors of the Company are set out in note 11 to the consolidated financial statements of this annual report.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS

Our Directors confirm that the Group entered into various purchase agreements with Zhongshan Da Chong Elastic Thread Factory Limited（中山市大涌線廠有限公司）("**Da Chong**") for the purchase of yarns in FY2019. Da Chong, which is owned as to 15% by Mr. Wong Kai Hung Kelvin and 85% collectively by his close family members, is our connected person and the transactions contemplated under such purchase agreements constituted continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

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

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

During FY2019, Proudy Limited, a company wholly owned by Mr. Hung Yuk Miu, has entered into an agreement with the Group to provide certain consultancy service (the "**Consultancy Service**") to the Group from 1 January 2020 for a term of 2 years with a monthly fee of HK$80,000. Such Consultancy Service constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the Consultancy Service is to be provided by Proudy Limited to the Group on normal commercial terms and all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules, on an annual basis, are less than 5% and the annual amount payable was less than HK$3 million, the continuing connected transaction are fully exempted from all annual review, reporting, announcement and independent shareholders' approval under Chapter 20 of the GEM Listing Rules. The payment made to Proudy Limited in FY2019 as set out in note 30(b) to the audited consolidated financial statements of the Company contained in this annual report represented the prepaid service fees as at 31 December 2019.

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

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

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

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which are (a) recorded in the register required to be kept under section 352 of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

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

Notes:

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

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

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Directors' Rights to Acquire Shares and Debentures

At no time during the year ended 31 December 2019 and up to the date of this report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2019, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) have interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares of the Company

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

Notes:

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

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

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the existing Directors is currently in force and was in force throughout the year ended 31 December 2019. The Company has taken out directors' liability insurance that provides appropriate cover for the Directors.

COMPETING INTEREST

During the year ended 31 December 2019, none of the Directors or the controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group of interests with the Group for the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year end 31 December 2019 or subsisted at the end of the year.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the year ended 31 December 2019 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate in compliance with the applicable environmental laws as well as protecting the environment by minimising the negative impact of the Group's existing business activities on the environment. For details, please refer to the sub-section headed "A. Environmental" under the section headed "Environmental, Social and Governance Report" on pages 41 to 46 of this annual report. To the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2019.

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year ended 31 December 2019 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2019. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the GEM Listing Rules are provided in the Corporate Governance Report of this annual report.

INTERESTS OF THE COMPLIANCE ADVISER

The Company and Sunfund Capital Limited ("**Sunfund**") have mutually agreed to terminate the compliance adviser agreement entered into between them dated 7 April 2017 with effect from 28 May 2019, due to changes in personnel of Sunfund. First Shanghai Capital Limited ("**First Shanghai**") has been appointed as the new compliance adviser to the Company as required pursuant to Rule 6A.27 of the GEM Listing Rules with effect from 28 May 2019.

As confirmed by First Shanghai, the Company's compliance adviser, save for the compliance agreement entered into between the Company and First Shanghai dated 28 May 2019, none of First Shanghai or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 30 June 2019 and up to the date of this report, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

BOARD COMMITTEES

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

EVENT AFTER THE REPORTING PERIOD

The recent global outbreak of COVID-19 Since January 2020 has, to a certain extent, affected the business and operation of the Group. The global epidemic has resulted in lockdowns and disruption of transportations in various countries and regions as well as a downward pressure in the global economy. Some of the Group's suppliers have suffered a reduction in their productivity in February 2020 but have been mostly resumed to usual in March 2020. There has also been a slight reduction in demand of our products from our customers and the Board expects the demand will resume normal in the second half of 2020. However, the management of the Group is closely monitoring the market situation and continuously evaluating the impact of the epidemic to the Group's operation and financial performance and will make adjustments to the Group's business plan and operations, if necessary, so as to minimise any impact on the Group. As at the date of this report, the Board is not aware of any significant adverse impact caused by COVID-19 on our supply chains or our sales to major customers, the procurement and sales of the Group have been back to usual.

Other than the aforementioned event, the Board is not aware of any significant event after the reporting period of the Group that requires disclosure.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been prepared by SHINEWING (HK) CPA Limited ("**Shinewing**"), the auditor of the Company, who will retire at the conclusion of the 2020 AGM and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Shinewing as auditor of the Company will be proposed at the 2020 AGM.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 25 March 2020

Environmental, Social and Governance Report

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

ST International Holdings Company Limited (the "**Company**") together with its subsidiaries (the "**Group**" or "**we**"), are principally engaged in the sales of functional knitted fabrics and apparel in the People's Republic of China (the "**PRC**").

The Group is pleased to present the Environmental, Social and Governance Report (the "**ESG Report**") of the Group for the financial year ended 31 December 2019 (the "**Reporting Period**"). The ESG Report does not only elaborate our commitments and strategies on corporate social responsibility, but also summarises the Group's Environmental, Social and Governance ("**ESG**") initiatives, plans and performance in sustainable development.

The Group believes that sustainability is a key to achieve continuous success, therefore we have integrated this key concept into our business strategy. In order to pursue a successful and sustainable business model, the Group integrates ESG aspects into our risk management system. We adhere to the ESG management direction in accordance with the concept of sustainable development, and are committed to progressing effectively against ESG affairs of the Group.

The ESG Governance Structure

The Group established the ESG taskforce (the "**Taskforce**"). The Taskforce comprises of core members from different departments of the Group and is responsible for collecting relevant information on the ESG aspects for the preparation of the ESG Report. The Taskforce reports to the Board on a regular basis, assists in identifying and assessing the Group's ESG risks, and assesses the effectiveness of the Group's ESG internal control mechanism. The Taskforce also examines and evaluates the performance in different aspects such as environment, safe workplace, labour standards, and product responsibility in the ESG perspectives. The Board sets the general direction of the Group's ESG strategy and ensures the effectiveness of ESG risk management and internal control mechanism.

REPORTING SCOPE

This ESG Report generally covers the Company's subsidiaries, including Dongguan Smart Union Textiles Technology Co., Ltd and Guangdong Smart Team Textiles Technology Co., Ltd ("**Smart Team**") in the PRC, as well as the Group's headquarter in Hong Kong. The Group will continue to assess the major ESG aspects of different businesses and extend the scope of disclosures when and where applicable.

REPORTING FRAMEWORK

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide ("**ESG Reporting Guide**") as set out in the Appendix 20 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

Information relating to the Group's corporate governance practices has been set out in the Corporate Governance Report on P.15 to P.28 of this annual report.

REPORTING PERIOD

The ESG Report specifies the ESG activities, challenges and measures being taken during the financial year ended 31 December 2019.

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. In order to understand and address their key concerns, we have been maintaining close communication with our stakeholders. We will continue to increase the involvement of stakeholders via constructive conversation with a view to charting a course for long term prosperity. The Group's communication channels with the key stakeholders and their respective expectations are summarised as follows:

Stakeholders	Expectations	Communication channels
Shareholders and investors	• Returns • Compliant operation • Growth in corporate value • Transparency and effective communication	• General meetings • Financial reports • Announcements and circulars • Email, telephone communication and company website
Government and regulators	• Compliance with national or local policies, laws and regulations • Support for local economic growth • Driving local employment • Tax payment in full and on time • Ensuring production safety	• Regular information reporting • Regular meetings with regulators • Dedicated reports • Examination and inspection
Business partners	• Operation with integrity • Fair competition • Performance of contracts • Mutual benefits	• Review and appraisal meetings • Business communication • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operation with integrity	• Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Client review
Industry	• Establishment of industry standards • Driving industrial development	• Participation of industrial forums • Visits and inspections
Employees	• Protection of rights • Occupational health and safety • Remuneration and benefits • Career development • Humanity care	• Meetings with employees • House journals and intranet • Employee mailbox • Employee activities • Training and workshop
Community and the public	• Improvement in the community environment • Charity participation • Transparent information • Social medial platform	• Company website • Announcements and circulars • Interview with media

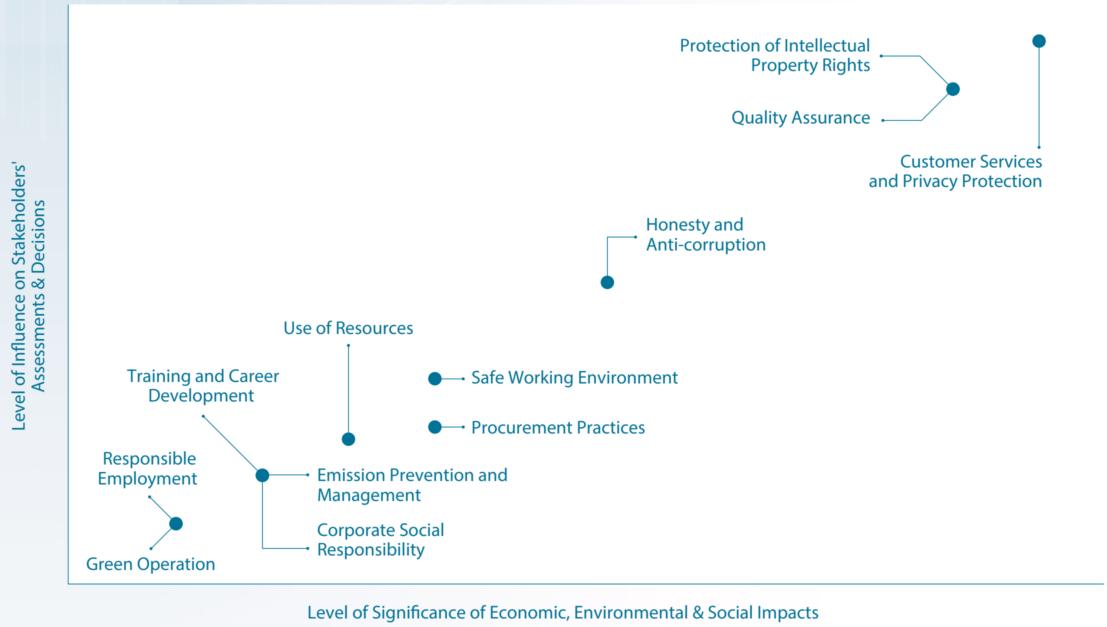
We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

The Group's management and staff in major functions are involved in the preparation of the ESG Report to assist the Group in reviewing its operations, identifying the relevant ESG issues and assessing the importance of those relevant matters to our business and stakeholders. We have compiled a survey to collect information from relevant departments, business units and stakeholders of the Group to identify material ESG issues. The following matrix is a summary of the Group's material ESG issues.

MATERIALITY MATRIX



During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents in the ESG Report are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome comments and suggestions from stakeholders. We are pleased to receive your valuable feedback on the ESG Report and/or our sustainability performance. Please feel free to share your feedback by email at yanminli@smart-team.cn.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and Key Performance Indicator ("KPI")

The Group attaches great importance to good environmental management and strives to protect the environment in order to fulfil the social responsibilities of the Group. The Group has established an Environmental Management Policy and an environmental management system, which aims to prevent pollution and minimise possible environmental impacts. One of our subsidiaries, the Smart Team, is accredited with ISO 14001:2015 Environmental Management System.

As a corporation that has outsourced all production processes to third-party factories, the Group's daily operations have limited impact on the environment while its emissions are limited to air emissions from vehicles, greenhouse gas ("GHG") emissions and non-hazardous waste. However, we still strive to minimise potential environmental impacts from third-party factories by ensuring that they have obtained relevant environmental permits necessary for their manufacturing and have complied with relevant environmental laws and regulations before entering into business relationships with them. We are committed to promoting a green environment by introducing environmentally friendly business practices, educating our employees to enhance their awareness on environmental protection and complying with relevant environmental laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with environmental related laws and regulations, including but not limited to the Environmental Protection Law of the PRC, the Prevention and Control of Atmospheric Pollution of the PRC, the Hong Kong Waste Disposal Ordinance, and the Water Pollution Control Ordinance that would have a significant impact on the Group.

Emission Prevention and Management

Exhaust Gas Emissions

The Group's major source of exhaust gas emissions was originated from petrol consumed by vehicles. In response to the above source, we have actively taken the following emission reduction measures to minimise the impacts:

- Conduct regular vehicle inspection and maintenance to enhance vehicle efficiency;
- Educate employees to turn off engines for idling vehicles;
- Encourage the use of public transportation for business travel;
- Reduce the number of business trips by utilising electronic communication means such as video conferences; and
- Actively adopt other measures to reduce emissions, which are described in the section headed "GHG Emissions" under this aspect.

During the Reporting Period, the Group's exhaust gas emissions performance was as follows:

Types of exhaust gas	Unit	Emissions
Nitrogen Oxides (NOx)	kg	94.05
Sulphur Oxides (SOx)	kg	0.16
Particulate Matter (PM)	kg	8.86

GHG Emissions

The major sources of the Group's GHG emissions were generated from petrol consumption of vehicles (Scope 1), purchased electricity (Scope 2), and employee business-related air travels (Scope 3). We have adopted the following measures to reduce GHG emissions during operation:

- Actively adopt environmental protection, energy conservation and water conservation measures which are described in the sections headed "Energy Management" and "Water Management" under aspect A2; and

- Actively adopt measures to reduce paper use in office which are described in the section headed "Waste Management" under this aspect.

Through the implementation of the above measures, employees' awareness on GHG emissions reduction has been raised. During the Reporting Period, the Group's GHG emissions performance was as follows:

Indicator[1]	Unit	Emissions
Direct GHG emissions (Scope 1)	tCO_2e	28
Indirect GHG emissions (Scope 2)	tCO_2e	49
Indirect GHG emissions (Scope 3)	tCO_2e	28
Total GHG emissions (Scope 1, 2 and 3)	tCO_2e	105
Total GHG emissions intensity[2]	tCO_2e/employee	1.42

Note:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and based on, including but not limited to, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards issued by the World Resources Institute and the World Business Council for Sustainable Development, How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs issued by the Stock Exchange of Hong Kong Limited, Global Warming Potential Values from the IPCC Fifth Assessment Report, 2014 (AR5), the latest emission factors of China's regional power grid basis, and 2018 Sustainability Report published by Hong Kong Electric Investments.

2. As at 31 December 2019, the Group had a total of 74 employees. This data has also been used for calculating other intensity data.

Sewage Discharge

As the Group has outsourced the production processes to third-party factories, sewage generated was mainly resulted from water consumed by employees. Since the sewage discharged by the Group are discharged into the municipal sewage pipe network to the regional water purification plant, the water consumed by the Group is considered as sewage discharged. The data on water consumption and corresponding water conservation measures are described in the section headed "Water Management" under aspect A2.

Waste Management

Hazardous Wastes

Hazardous wastes generated by the Group were mainly office supplies such as toner cartridges and light tubes. However, they were only consumed at a relatively small amount and are collected by the building management company, therefore they are considered as immaterial to the Group. Despite the Group has generated an insignificant amount of hazardous wastes, we have established guidelines in governing the management and disposal of hazardous wastes. In case if there are any hazardous wastes produced, the Group is required to engage a qualified chemical waste collector to handle such wastes, and comply with relevant environmental rules and regulations.

Non-hazardous Wastes

The Group adheres to the principles of waste management, and is committed to handling and disposing all wastes generated by our business activities through abiding by the 3R principle (Reduce, Reuse and Recycle). All of our waste management practices comply with relevant environmental laws and regulations. The non-hazardous wastes disposed by the Group's business activities were mainly general wastes. We have taken the following measures to reduce non-hazardous wastes in our business operation:

- Use reusable products instead of one-off office supplies whenever possible;
- Extend stationery life cycle by reusing envelopes and refilling pens;
- Place recycling bins in office areas to cultivate employees' recycling habits;
- Distribute office memos to remind staff to only print necessary materials to avoid wastage;
- Use recycled paper for printing and copying; and
- Promote double-sided printing to utilise paper efficiently.

With the above waste reduction initiatives, employees' waste reduction awareness has been increased. Since the general wastes generated by the Group was mainly collected and managed by the property management office, therefore the Group did not have the record of general waste disposed during the Reporting Period. Besides, the Group will generate waste fabrics in the course of operation due to the Group's business nature. Yet, all waste fabrics generated by the Group during the Reporting Period were sold to third party manufacturer.

A2. Use of Resources

General Disclosure and KPIs

The Group upholds and promotes the principle of effective use of resources, and is committed to optimising the use of resources in all of its business operations. We promote green office and operation environment, and continue with initiatives to introduce resource efficiency and eco-friendly measures to the Group's operations.

The Group has established relevant policies and procedures in governing the use of energy and water with reference to the objective of achieving higher efficiency and reducing the unnecessary use of materials.

Use of Resources

Energy Management

The Group has developed related energy measures and initiatives on the efficient use of energy, and such measures and initiatives have been formally documented in the Environmental Management Policy. Employees are required to take the related measures and initiatives, and assume responsibility for the Group's overall energy efficiency. By establishing an energy management system, we develop and regularly review our energy consumption objectives and targets to continuously enhance the Group's energy consumption performance. Unexpected high consumption of energy will be investigated for its root causes with corresponding preventive measures being taken when deemed necessary.

The energy consumption of the Group was mainly contributed by the electricity consumption in operation and gasoline consumption for vehicles. The Group has introduced various measures and initiatives to achieve the goal of electricity saving and efficient consumption. Such measures and initiatives included but not limited to the following:

- Turn off all unnecessary lightings and use natural lightings as far as practicable;
- Set the air conditioning system at a minimum of 25.5˚C;
- Clean the filters of air-conditioning systems regularly to maintain their efficiency;
- Allow employees to dress light in hot weather and Fridays to reduce the use of air conditioning; and
- Set computers and other information and communication technology equipment to automatic standby mode or switch them off when not in use.

Through the implementation of the above initiatives, employees' awareness on energy reduction has been increased. During the Reporting Period, the Group's energy consumption performance was as follows:

Energy type	Unit	Consumption
Direct energy consumption	MWh	89
Indirect energy consumption[3]	MWh	102
Total energy consumption	MWh	191
Total energy consumption intensity	MWh/employee	2.58

Note:

3. Actual petrol consumption was approximately 10,585.05 litres during the Reporting Period.

Water Management

The Group's water use was mainly domestic water in office areas. We encourage all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, posting water saving reminders, and guiding employees to consume water reasonably. The following are some measures we have implemented to increase water use efficiency:

- Recycle and reuse grey water for cleaning and watering plants in offices;
- Reduce water pressure to the lowest practicable level; and
- Fix dripping taps promptly to avoid further leakage and wastage.

During the Reporting Period, the Group's water consumption performance was as follows:

Indicator	Unit	Consumption
Water	m^3	1,091
Water consumption intensity	m^3/employee	14.74

In view of the geographical location of the Group's operation and nature of business, there is no problem in sourcing water.

Use of Packaging Material

As the Group has outsourced the production processes to third-party factories, the operation of the Group did not involve any use of packaging materials.

A3. The Environment and Natural Resources

General Disclosure and KPIs

The Group pursues the best practices for environmental protection and focuses on the Group's business impacts on the environment and natural resources. In addition to complying with relevant environmental laws and international standards for protecting the natural environment, we have integrated the concepts of environmental protection and natural resource conservation into our internal management and daily operations in order to achieve environmental sustainability.

Green Operation

To enhance working efficiency, the Group is committed to providing employees a comfortable and green working environment. The Group maintains office order and environmental sanitation, and keeps the office clean and tidy. In addition, the Group regularly monitors and measures the indoor air quality of the workplace. The Group maintains indoor air quality by installing air purification equipment in the workplace and regularly cleaning air-conditioning systems to filter pollutants and dust.

B. SOCIAL

B1. Employment

General Disclosure

Human resource serves as the basis for the continuous development of the Group. The Group's success relies heavily on the ability to attract, develop and retain talents. The Group adheres to a people-oriented principle, respects and protects the legitimate rights and interests of every employee. We regulate and manage the employment process, protect employees' occupational health and safety, strengthen democratic management style, safeguard the interests of employees and value employees' enthusiasm, initiative and creativity so as to build a harmonious labour relationship.

The Group has formally documented relevant employment policies in the Employee Handbook, covering recruitment, promotion and dismissal, remuneration and benefits, diversity and equal opportunities, etc. We review these policies and our employment process periodically to ensure the continuous improvement of our employment standards.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations, including but not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and the Hong Kong Employment Ordinance that would have a significant impact on the Group.

Responsible Employment

Recruitment, Promotion and Dismissal

The Group seeks to build an elite workforce by recruiting outstanding employees. We adhere to the principles of openness and fairness to adopt a robust recruitment process based on merit selection against the job criteria applied. Job applicants are assessed based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The Group offers promotion and development opportunities for outperforming employees through an open and fair assessment system so as to explore their capability, assist them on career development and contribute to the Group's sustainable growth. Staff performance reviews are carried out regularly to assess employees' work performance based on the principle of meritocracy, talents and competitiveness on an open and fair basis.

Besides, the Group does not tolerate the dismissal of employees under any unreasonable basis, and exit interviews are required to be conducted with the resigned staff to collect opinions for any possible improvements on the Group's policies.

Remuneration and Benefits

The Group has established a fair, reasonable and competitive remuneration system. Our basis to determine one's remuneration includes job-related skills, qualifications, experiences, capability, work performances, and prevailing market remuneration rate. The Group conducts regular staff performance review to decide the salary adjustments. Employees' remuneration are composed of basic salary, performance bonus, overtime pay, full attendance award, related subsidies and various bonuses.

The Group signed and executed labour contracts with all employees in the PRC in accordance with the Labour Contract Law of the PRC. The Group pays five social insurances and one housing fund for its employees in the PRC in compliance with the laws and regulations, namely endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to ensure employees are covered by social insurance. We also remit contributions to the Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong's Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong.

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

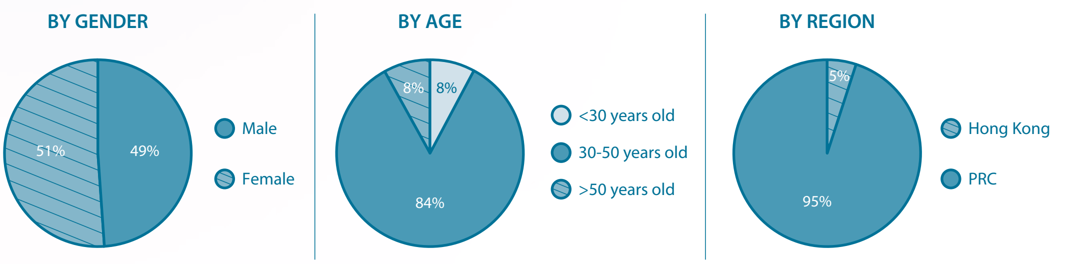
STATUTORY BENEFITS	CARING BENEFITS	INCENTIVE BENEFITS
• Five social insurances and one housing fund for employees in the PRC • MPF for employees in Hong Kong • All statutory holidays	• Lunch allowance • High-temperature allowance • Free accommodation • Paid annual leave, maternity leave, paternity leave, marriage leave, funeral leave, and sick leave	• Wage for seniority • Long-service allowance • Performance-based salary • Year-end bonus

Equal Opportunities and Anti-discrimination

We are committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace free from discrimination, physical or verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation. We have zero tolerance on sexual harassment or abuse in the workplace in any form. Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to the employee's representative, or file complaints directly to the management representative or the general manager, and the Group will take a serious approach to resolve these issues upon receiving the said complaints.

As at 31 December 2019, the Group had a total of 74 employees. The following graphs show our employees' diversity by age, gender and region.

TOTAL WORKFORCE



Work-life Balance

The Group recognises the importance of maintaining a healthy lifestyle and work-life balance for our employees. Thus, the Group strives to establish a harmonious labour relationship and working environment which promote positive and healthy lifestyle. We will also organise football games and matches on a regular basis.

B2. Health and Safety

General Disclosure

The Group highly values employees' health and safety, and is committed to providing employees a healthy, safe and comfortable working environment. We strive to eliminate potential workplace health and safety hazards, and implement safety management measures in all aspects to enhance employees' health and safety during work. We have established an occupational health and safety system and obtained the certificate of OHSAS 18001 Occupational Health and Safety Management System for Smart Team.

During the Reporting Period, there were no reported cases of work-related fatalities, and the Group was not aware of any material non-compliance with health and safety related laws and regulations, including but not limited to the Law of the PRC on the Prevention and Control of Occupational Diseases, and the Occupational Safety and Health Ordinance of Hong Kong that would have a significant impact on the Group.

Safe Working Environment

To pursue an injury-free working environment, the Group requires all employees to receive safety trainings before the commencement of work. We also emphasise to our employees that strict compliance with safety requirements is vital to protect themselves from accidents and injuries. Safety guidelines are provided to our employees who work in our third-party manufacturers' production facilities. When safety issues are spotted, employees are required to report in a timely manner. The Group has also formulated a series of emergency plans in case of any accidents and organised fire drills on a regular basis to further reinforce employees' safety awareness.

B3. Development and Training

General Disclosure

The Group regards our staff as one of the most important assets and resources. We recognise the valuable contribution our talents made to the continuing success of the Group. We are committed to investing in our human capital towards delivering excellence and striving to create an intellectually-stimulating environment within which employees do not only develop basic skills and knowledge but also specific talent and ability. This is achieved through the development of training strategies on creating values and serving the needs of our customers, our talents and society.

Training and Career Development

The Group has developed relevant training procedures to standardise the management of employees' training. The Group has formulated a training management system and is formally documented in the Employee Handbook.

We require all new employees to attend induction courses to ensure that they are well-equipped with the necessary skills to perform their duties. The Group also provides regular trainings to our employees on areas such as technical know-how, industrial knowledge and hands-on skills. Training contents are regularly updated to ensure that the up-to-date materials are able to enhance the skills, knowledge, and competency of employees.

In addition to internal trainings, the Group encourages and supports employees to participate in external personal and professional trainings to fulfill the needs of the Group's development. To encourage employees in taking the initiative in learning and pursue further career development, we offer reimbursements to our employees who have received relevant trainings and completed development programs that pertain to their respective work positions and skills. We also encourage our research and development personnel to participate in trainings provided by external research institutions, such as Donghua University, in order to maintain our capability in developing new products.

B4. Labour Standards

General Disclosure

Prevention of Child and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by laws and regulations. The Group has established a complete recruitment process to examine candidates' background and official reporting procedures to handle any exceptions. Personal data are collected during the employment process to assist in the selection of suitable candidates and to verify candidates' personal data. The human resource department ensures that the identity documents are carefully checked. If violation is involved, it will be dealt with in the light of circumstances.

Furthermore, employees overtime working are based on voluntary principle so as to avoid the violation of labour standards and safeguard the rights and interests of employees. Overtime salary or compensatory leave are also required to be provided afterwards. To prevent any form of forced labour, a job description outlining the principal responsibilities of employee is attached in the labour contract. The Group also prohibits any punitive measures, management methods and behaviours such as abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) for any reason. At the same time, the Group also refrains from engaging with third-party factories and any suppliers who are aware of child labour or forced labour in their operations.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations related to the prevention of child labour and forced labour, including but not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC and the Hong Kong Employment Ordinance that would have a significant impact on the Group.

B5. Supply Chain Management

General Disclosure

As a socially responsible enterprise, the Group places heavy emphasis on the management of potential environmental and social risks in supply chain. We have established a rigorous and standardised procurement system that all suppliers are evaluated carefully and subjected to regular monitoring and assessments.

Procurement Practices

The Group has established a rigorous supplier selection system. During the supplier selection process, we do not only review suppliers' basic information, but also consider a number of other factors such as the delivery schedule, pricing, possession of requisite licenses, certifications, and the compliance to relevant industrial laws, regulations and standards. In addition, we place product quality as our first priority, and we review the performance of our raw material suppliers from time to time to ensure raw materials are able to meet our quality standards.

In view of the growing social concern on environmental issues, the Group has also incorporated environmental and social considerations into the supplier selection process. We aim to maintain a good relationship with suppliers having remarkable records in environmental and social performance. Suppliers who fail to demonstrate a good standard or fail to meet the Group's supplier selection criteria are excluded from our list of suppliers for future engagements.

In addition to the supplier selection system, the Group has formulated policies and procedures to ensure suppliers compete in a transparent and fair way. We do not discriminate against any suppliers, and we do not allow any forms of corruption or bribery. Employees and other individuals with interest in the suppliers are not allowed to participate in relevant procurement activities. The Group only selects suppliers with good track record in the past and no serious violations of business ethics.

B6. Product Responsibility

General Disclosure

The Group actively safeguards the quality of our products with our internal control process, and maintains on-going communication with our customers to ensure mutual understanding while fulfilling customers' needs and expectations. We aim to apprehend customers' need and expectations, and strive to continuously improve the quality of our products and services.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the Law of the PRC on the Protection of Consumer Rights and Interests, the Product Quality Law of the PRC, the Patent Law of the PRC, the Advertising Law of the PRC, and the Hong Kong's Personal Data (Privacy) Ordinance, Trade Descriptions Ordinance, Copyright Ordinance that would have a significant impact on the Group.

Quality Assurance

We recognise the importance of achieving and maintaining high product quality standard to the sustainable growth of the Group. One of the Group's subsidiaries, Smart Team has obtained the certificate of ISO 9001:2015 Quality Management System on research, design and sales of textiles. The Group was also accredited with the OEKO-Tex Standard 100, which guaranteed that our products meet the human-ecological requirements for baby clothing.

To maintain high product quality, we attach great emphasis on quality management. We have established a quality control team headed by an experienced manager in the textile industry, who is responsible for ensuring the quality standards of the raw materials, products manufactured by third-party factories at each stage of production processes, as well as our end products. We have also formulated standardised technical checklists which prescribe specific technical requirements and guidance to these third-party factories.

In addition, to ensure the scheduled production plans are well-executed, representatives from our production control team are assigned to station in the third-party factories to carry out on-site inspection, provide production instructions and guidance, monitor production progress, coordinate day-to-day work, and take immediate actions to remedy defects discovered.

Research and Development

The Group views that the effort in conducting research and development is indispensable from maintaining a high product quality standard. We constantly seek to develop new products and enhance our existing products with special features through our research and development capabilities.

To expand our research and development capabilities, the Group has developed a sophisticated research and development team comprising professional technicians and engineers. We have also built our own physical laboratory, chemical laboratory, and other research centres for research and quality control. In addition, we have established research centres with Donghua University, Toyobo Co., Ltd. and Lenzing Group, which allow us to possess the latest technology in global textile industry. By leveraging our strong capabilities of research and development, we have been recognised as a High and New Technology Enterprise since 2016.

Customer Services and Privacy Protection

The Group provides quality and warm service experience to customers through standardised service quality management. To minimise complaints from customers that may result in product recall or other adverse consequences, our sales executives are responsible for liaising with our customers during the ordering stage and maintain close contact with them after delivery to ensure the Group is being notified for any quality problem or customers' complaints.

The Group has also established a set of procedures in handling customers' feedback or complaints in a professional manner. When receiving product or service-related enquiries or complaints, our sales executives communicate with customers immediately to resolve the problems. We are committed to understanding the facts and root causes of each customers' complaint, identifying areas for improvement and ensuring that necessary improvements are made in order to enhance the quality of the Group's service and products. We believe that this does not only help to build customers' loyalty to the Group, but also retains a customer base for promoting future development of the Group.

Apart from handling complaints, the Group understands that the protection of customers' privacy also contributes to excellent customer service experience. We are determined to protecting customers' personal data by handling them with the highest degree of confidentiality. We have established strict policies for the collection and use of customers' data, which is formally documented in the Employee Handbook. Our employees are prohibited from revealing or capitalising on any confidential matters or customer's information no matter during employment or after termination of employment. Any employee who is found to have divulged confidential information to any third parties without authorisation will be subjected to disciplinary actions.

Protection of Intellectual Property ("IP") Rights

We believe our know-how and IP rights are critical to the success of the Group, therefore we have developed an IP management system which is accredited with IPMS Management System Certification.

The Group has adopted a number of measures and policies to protect our IP rights from any misuse or leakage of our IP. A specialised team has been established to manage and handle trademarks and patents to protect our rights from infringement. Employees are also required to sign a non-disclosure agreement which prohibits the divulgence of any trade secrets of the Group to any third parties. Moreover, we have entered into data processing agreements with third-party factories to protect our IP rights. For any infringement of our IP, we will urge infringers to cease such action or further action will be taken.

Advertising and Labelling

The Group emphasises the importance of proper advertising and compliance with relevant requirements of media advertisements. We promote our products mainly through advertisements, trade shows, and industry exhibitions. We verify all information regarding our products and business before publication of promotion materials or product sales to prevent any false, misleading or deceptive information being publicised.

B7. Anti-corruption

General Disclosure

The Group believes that a corporate culture of high integrity is the key to its continuing business development, therefore we value the importance of anti-corruption work and are committed to build an honest and transparent corporate culture.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Criminal Law of the PRC, the Company Law of the PRC, and the Hong Kong's Prevention of Bribery Ordinance that would have a significant impact on the Group.

Honesty and Anti-corruption

The Group strictly adheres to a high standard of business conduct, and has established relevant policies to define appropriate measures in handling conflict of interests, leakage of confidential information, embezzlement of the Group's asset, etc. to comply with relevant laws and regulations. The Group has adopted a zero-tolerance approach towards all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement, money laundering and collusion. Disciplinary actions will be taken against any kind of misconduct or malpractice.

B8. Community Investment

General Disclosure

Corporate Social Responsibility

The Group believes in shouldering the responsibility of contributing to society and strives to be a responsible corporate citizen. We have formulated the Community Investment Policy, and are committed to being an active member of the community in supporting various charitable and community activities. The Community Investment Policy aims to provide guidance and standards to all employees who wish to support community activities as part of the Group.

We hope to foster employees' sense of social responsibility by encouraging them to participate in charitable activities to make greater contributions to the community. We believe that by participating in activities that contribute to the community, we aim to enhance the civic awareness of our employees and establish correct values for them.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
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 Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions – Emission Prevention and Management
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions – Exhaust Gas Emissions
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions – GHG Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Emission – Waste Management
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emission – Waste Management
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions – Emission Prevention and Management
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emission – Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources – Energy Management
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources – Water Management
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources – Energy Management
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources – Water Management
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources – Use of Packaging Material

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment and Natural Resources – Green Operation
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, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1 ("Recommended Disclosure")	Total workforce by gender, employment type, age group and geographical region.	Employment
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.	Health and Safety
KPI B2.1 ("Recommended Disclosure")	Number and rate of work-related fatalities.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
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.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
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.	Product Responsibility
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.	Anti-corruption
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 take into consideration the communities' interests.	Community Investment

Independent Auditor's Report

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

TO THE MEMBERS OF
ST INTERNATIONAL HOLDINGS COMPANY LIMITED
智紡國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ST International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 63 to 126, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Valuation of inventories

Refer to note 18 to the consolidated financial statements and the accounting policies on page 83.

The key audit matter

The Group has carrying value of inventories amounted to approximately HK$39,305,000 as at 31 December 2019.

Inventories are valued at the lower of cost or net realisable value.

We have identified the valuation of inventories as a key audit matter since the allowance for inventories involved significant degree of judgements and estimates made by the management.

How the matter was addressed in our audit

Our audit procedures were designed to assess the methodology and assumptions used by management in assessing the inventory provisions.

We have reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account, the most recent prices achieved on sales across different products and by checking subsequent sales.

We have also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

KEY AUDIT MATTERS *(Continued)*

Recoverability of trade receivables

Refer to note 19 to the consolidated financial statements and the accounting policies on pages 85 to 88.

The key audit matter	How the matter was addressed in our audit
The Group's trade receivables amounted to approximately HK$34,284,000, representing approximately 22% of the Group's current assets, as at 31 December 2019. In general, the credit terms granted by the Group to the customers ranged between 30 to 90 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking expected credit losses model on impairment assessment of trade receivables. We have assessed the provision matrix used in the model by reference to the historical information together with other external available information. In particular, we have challenged the appropriateness of the default rate of various debtors that have similar loss patterns by taking into account the ageing at year end. We have also challenged the appropriateness of the assumptions used in forward-looking information by comparing credit worthiness of each debtor and macro economy and industry performance and checking historical and subsequent settlement records of and other correspondence with the customers.

OTHER INFORMATION

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

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

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

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

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

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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Chan Ka Wai.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Ka Wai
Practising Certificate Number: P07328
Hong Kong
25 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**191,180**	173,461
Cost of sales		**(129,912)**	(109,659)
Gross profit		**61,268**	63,802
Other income	7	**1,836**	1,570
Selling and distribution expenses		**(5,286)**	(4,740)
Administrative and other expenses		**(19,192)**	(30,494)
Reversal of impairment loss/(Impairment loss) on trade receivables		**57**	(98)
Finance costs	8	**(338)**	(343)
Profit before tax		**38,345**	29,697
Income tax expenses	9	**(3,353)**	(5,530)
Profit for the year	10	**34,992**	24,167
Other comprehensive expense for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(4,583)**	(3,987)
Total comprehensive income for the year		**30,409**	20,180
Profit (loss) for the year attributable to:			
Owners of the Company		**34,992**	24,281
Non-controlling interests		**–**	(114)
		34,992	24,167
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**30,409**	20,276
Non-controlling interests		**–**	(96)
		30,409	20,180
Earnings per share – basic and diluted (HK$ cents)	14	**7.29**	5.57

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Plant and equipment	15	**6,682**	5,979
Deposit paid for acquisition of plant and equipment	16	**20,000**	6,000
Deferred tax asset	24	**2,367**	1,742
Right-of-use assets	17	**1,668**	–
		30,717	13,721
Current assets			
Inventories	18	**39,305**	23,603
Trade and bills receivables	19	**34,903**	33,319
Deposits, prepayments and other receivables	19	**20,808**	27,392
Pledged bank deposits	21	**2,791**	6,078
Bank balances and cash	21	**55,155**	61,026
		152,962	151,418
Current liabilities			
Trade payables	22	**1,590**	3,307
Other payables and accruals	22	**7,100**	5,886
Contract liabilities	20	**2,414**	7,613
Lease liabilities	17	**1,206**	–
Bank borrowing	23	**–**	5,535
Income tax payable		**3,245**	4,873
		15,555	27,214
Net current assets		**137,407**	124,204

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Deferred tax liability	24	**400**	1,030
Lease liabilities	17	**420**	–
		820	1,030
NET ASSETS		**167,304**	136,895
Capital and reserves			
Share capital	25	**4,800**	4,800
Reserves		**162,504**	132,506
Equity attributable to owners of the Company		**167,304**	137,306
Non-controlling interests		**–**	(411)
Total equity		**167,304**	136,895

The consolidated financial statements on pages 63 to 126 were approved and authorised for issue by the board of directors on 25 March 2020 and are signed on its behalf by:

Mr. Wong Kai Hung, Kelvin
Director

Mr. Xi Bin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Retained earnings HK$'000	Exchange reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
			(Note a)	*(Note b)*		*(Note c)*			
At 1 January 2018	–	–	335	4,941	51,126	539	56,941	(315)	56,626
Profit (loss) for the year	–	–	–	–	24,281	–	24,281	(114)	24,167
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(4,005)	(4,005)	18	(3,987)
Total comprehensive income (expense) for the year	–	–	–	–	24,281	(4,005)	20,276	(96)	20,180
Issue of shares *(note 25)*	100	–	(100)	–	–	–	–	–	–
Contribution from shareholder *(note a)*	–	–	2,000	–	–	–	2,000	–	2,000
Issue of shares pursuant to placing and public offering *(note 25)*	1,200	68,400	–	–	–	–	69,600	–	69,600
Expenses incurred in connection with issue of new shares	–	(11,511)	–	–	–	–	(11,511)	–	(11,511)
Issue of shares by capitalisation of share premium account *(note 25)*	3,500	(3,500)	–	–	–	–	–	–	–
Transfer to the People's Republic of China (the "PRC") statutory reserve	–	–	–	856	(856)	–	–	–	–
At 31 December 2018 and 1 January 2019	4,800	53,389	2,235	5,797	74,551	(3,466)	137,306	(411)	136,895
Profit for the year	–	–	–	–	34,992	–	34,992	–	34,992
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(4,583)	(4,583)	–	(4,583)
Total comprehensive income (expense) for the year	–	–	–	–	34,992	(4,583)	30,409	–	30,409
Changes in ownership interest in a subsidiary *(note a (iv) and note 31)*	–	–	(411)	–	–	–	(411)	411	–
At 31 December 2019	4,800	53,389	1,824	5,797	109,543	(8,049)	167,304	–	167,304

Notes:

(a) Capital reserve

Capital reserves represents (i) the difference between the consideration for acquisition of non-controlling interest of Dongguan Smart Union Textiles Technology Co., Ltd.（東莞聯兆紡織科技有限公司）("Smart Union") and the carrying amount of the non-controlling interest, (ii) the contribution from the shareholder due to a deed of waiver dated 23 April 2018 executed by the shareholder and director of the Company, Mr. Wong Kai Hung Kelvin ("Mr. Wong") and a subsidiary of the Company, Smart Team Textiles Technology Limited ("Smart Team"), pursuant to which an outstanding sum in the amount of HK$2,000,000 owed by Smart Team to Mr. Wong as at 30 April 2018 was irrevocably and unconditionally waived by Mr. Wong and (iii) the nominal value of the share issued to acquire Smart Team; and (iv) the difference between the consideration for the acquisition of the non-controlling interest of Magic Team (Beijing) International Fashion Design Co., Ltd.（幻天（北京）國際服裝設計有限公司）and the carrying amount of the non-controlling interests.

(b) Statutory reserve

According to The People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners. The reserve balance has reached 50% of the registered capital and some entities of the Group in the PRC are in accumulated loss position, therefore, no transfer to the PRC statutory reserve for the year ended 31 December 2019.

(c) Exchange reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 **HK$'000**	2018 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**38,345**	29,697
Adjustment for:		
Depreciation of plant and equipment	**1,579**	1,092
Depreciation of right-of-use assets	**1,118**	–
(Reversal of impairment loss) impairment loss on trade receivables	**(57)**	98
Bank interest income	**(430)**	(195)
Finance costs	**338**	343
Government grants	**(865)**	(1,164)
Operating cash flows before movements in working capital	**40,028**	29,871
Increase in inventories	**(16,703)**	(12,011)
(Increase) decrease in trade and bills receivables	**(3,377)**	12,884
Decrease (increase) in deposits, prepayments and other receivables	**5,890**	(4,581)
Decrease in trade payables	**(1,688)**	(6,346)
Increase (decrease) in other payables and accruals	**1,361**	(1,089)
(Decrease) increase in contract liabilities	**(5,175)**	906
Cash generated from operations	**20,336**	19,634
Hong Kong income tax refunded	**–**	1,342
PRC income tax paid	**(6,175)**	(5,848)
NET CASH FROM OPERATING ACTIVITIES	**14,161**	15,128

	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES		
Deposit paid for acquisition of plant and equipment	**(14,000)**	(6,000)
Acquisition of plant and equipment	**(2,440)**	(4,034)
Decrease (increase) in pledged bank deposits	**3,336**	(151)
Interest received	**430**	195
NET CASH USED IN INVESTING ACTIVITIES	**(12,674)**	(9,990)
FINANCING ACTIVITIES		
Proceeds from issue of shares	**–**	69,600
New bank borrowing raised	**–**	5,730
Government grants received	**865**	1,164
Share issue expenses	**–**	(11,511)
Repayment to directors	**–**	(7,411)
Repayment of bank borrowing	**(5,535)**	(3,000)
Repayment of lease liabilities	**(1,227)**	–
Interest paid	**(229)**	(343)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(6,126)**	54,229
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,639)**	59,367
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**61,026**	3,119
Effect of foreign exchange rate changes	**(1,232)**	(1,460)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**55,155**	61,026

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below.

The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

2.1 Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this approach, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Comparative information has not been restated and continues to be reported under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.65%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

The following table summarises the impact of transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported as at 31 December 2018	**Impact of adopting HKFRS 16**	**Carrying amount as restated at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*
Right-of-use assets	–	1,082	1,082
Lease liabilities	–	1,082	1,082

Note:

As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liabilities of approximately HK$1,082,000.

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

2.1 Impacts on adoption of HKFRS 16 Leases *(Continued)*

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	1,243
Less: Short term lease with remaining lease term ended before 31 December 2019	(112)
	1,131
Discounted using the incremental borrowing rate at 1 January 2019 which represented lease liabilities recognised as at 1 January 2019	1,082
Analysed as	
Current portion	548
Non-current portion	534
	1,082

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

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

New and revised HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

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

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

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 GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

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.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated 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.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Contract assets and contract liabilities

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

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

The Group recognised revenue from sales of goods.

Sales of goods

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

Leasing (Accounting Policy applicable on or after 1 January 2019)

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

For contracts entered into on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (Accounting Policy applicable on or after 1 January 2019) *(Continued)*

The Group as lessee *(Continued)*

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (Accounting Policy applicable on or after 1 January 2019) *(Continued)*

The Group as lessee *(Continued)*

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated losses.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Leasing (Accounting Policy applicable prior to 1 January 2019)

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

The Group as lessee

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

Retirement benefits cost

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

Short term employee benefits

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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 they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred taxes are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

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

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

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

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

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

Plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible assets

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Inventories

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

Financial instruments

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

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

Financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at amortised cost (debt instruments)

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

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

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

Amortised cost and effective interest method

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Amortised cost and effective interest method *(Continued)*

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in "Other income" (note 7).

Impairment of financial assets

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

The Group always recognises lifetime expected credit loss ("ECL") for trade and bills receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Credit-impaired financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

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

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

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

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

Derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities subsequently measured at amortised cost

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

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

Derecognition of financial liabilities

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

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

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

Impairment of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is overdue as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss. At 31 December 2019, impairment loss of trade receivables is approximately HK$41,000 (2018: HK$98,000).

Estimated allowance for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2019, the carrying amount of inventories was approximately HK$39,305,000 (2018: HK$23,603,000).

Impairment of deposits paid for acquisition of plant and equipment

In determining the recoverability and possible write-back of the deposits paid for acquisition of plant and equipment, the directors of the Company have taken into account the likelihood of the Group to obtain the plant and equipment and the ability of the Group to collect the refund. Where the outcomes of whether the creditworthiness to the counterparty change from that expected, a material impairment loss may arise. As at 31 December 2019, the carrying amounts of the Group's deposits paid for acquisition of plant and equipment was HK$20,000,000 (2018: HK$6,000,000). No impairment loss was recognised for the year ended 31 December 2019 (2018: Nil).

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

Deferred taxes

As at 31 December 2019, the Group has unused tax losses of approximately HK$19,934,000 (2018: HK$16,243,000). As at 31 December 2019, deferred tax asset of HK$2,367,000 (2018: HK$1,742,000) have been recognised in respect of approximately HK$12,135,000 (2018: HK$10,554,000) of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK$7,799,000 (2018: HK$5,689,000) due to the unpredictability of future profit streams. The realisability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which a reversal takes place.

5. REVENUE

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

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

	2019 ***HK$'000***	2018 *HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Sales of functional knitted fabrics	**142,528**	156,384
– Sales of apparel	**17,487**	17,055
– Sales of yarns	**31,165**	22
	191,180	173,461

Disaggregation of revenue by timing of recognition

	2019 ***HK$'000***	2018 *HK$'000*
Timing of revenue recognition		
At a point in time	**191,180**	173,461

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

6. SEGMENT INFORMATION

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

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

Information about major customers

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

	2019 **HK$'000**	2018 HK$'000
Customer A	**59,244**	61,110
Customer B	**N/A[1]**	27,824
Customer C	**N/A[1]**	18,528

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

7. OTHER INCOME

	2019 **HK$'000**	2018 HK$'000
Bank interest income	**430**	195
Government grants *(note)*	**865**	1,164
Sundry income	**541**	211
	1,836	1,570

Note:

Government grants of HK$865,000 have been received towards research and development costs for the year ended 31 December 2019 (2018: HK$1,164,000). The amounts have been included in other income for the year. There are no unfulfilled conditions or contingencies related to these grants.

8. FINANCE COSTS

	2019 **HK$'000**	2018 HK$'000
Interests on:		
– Bank borrowing	**229**	343
– Lease liabilities *(note)*	**109**	–
	338	343

Note:

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

9. INCOME TAX EXPENSES

	2019 **HK$'000**	2018 HK$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**5,538**	6,804
Overprovision of PRC EIT in prior years	**(930)**	–
Deferred taxation *(note 24)*	**(1,255)**	(1,274)
	3,353	5,530

Hong Kong profits tax was calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the years ended 31 December 2019 and 2018. No provision for Hong Kong Profits Tax has been made as there are no assessable profits for the years ended 31 December 2019 and 2018.

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

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

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

9. INCOME TAX EXPENSES *(Continued)*

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

	2019 **HK$'000**	2018 HK$'000
Profit before tax	**38,345**	29,697
Tax at the applicable tax rate at 25% (2018: 25%)	**9,586**	7,424
Tax effect of preferential tax rate	**(4,485)**	(5,031)
Tax effect of super deduction of research and development expenses	**(902)**	(769)
Tax effect of income not taxable for tax purpose	**(307)**	(14)
Tax effect of expense not deductible for tax purposes	**292**	3,190
Overprovision in respect of prior years	**(930)**	–
Utilisation of tax losses previously not recognised	**(456)**	–
Tax effect of tax loss not recognised	**1,136**	515
Tax effect of tax loss previously not recognised	**(625)**	–
Reversal of withholding tax on undistributed earnings of a PRC subsidiary	**(600)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**644**	215
Income tax expense for the year	**3,353**	5,530

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% (2018: 175%) of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for relevant periods ended.

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

10. PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments *(note 11)*	**3,553**	3,636
Salaries, allowances and other benefits (excluding directors' emoluments)	**13,444**	13,841
Contributions to retirement benefits scheme (excluding directors' emoluments)	**901**	969
Total staff costs	**17,898**	18,446
Auditor's remuneration	**880**	880
Depreciation of plant and equipment	**1,579**	1,092
Depreciation of right-of-use assets *(note ii)*	**1,118**	–
Expenses in relation to the listing	**–**	10,856
Research and development costs recognised as an expense *(note i)*	**4,310**	5,367
Cost of inventories recognised as an expense	**123,095**	101,181
Operating lease rentals in respect of rented premises	**–**	1,608
Expense related to short-term leases *(note ii)*	**112**	–
Net foreign exchange losses	**249**	195

Notes:

(i) The research and development expenses disclosed here excluded salaries, allowances and other benefits of approximately HK$3,366,000 (2018: HK$2,901,000), and contributions to retirement benefits scheme of approximately HK$200,000 (2018: HK$153,000) for the years ended 31 December 2019 which had been included in salaries, allowances and other benefits disclosed above.

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

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2018: 6) directors and the chief executive were as follows:

	Year ended 31 December 2019				
	Fees *HK$'000*	Salaries, allowances and benefits in kind *Note (a)* *HK$'000*	Discretionary bonuses *HK$'000*	Retirement benefit scheme contributions *Note (a)* *HK$'000*	Total *HK$'000*
Executive directors:					
Mr. Wong Kai Hung, Kelvin	–	1,187	–	18	1,205
Mr. Xi Bin	–	1,188	–	35	1,223
	–	2,375	–	53	2,428
Non-executive directors:					
Mr. Hung Yuk Miu (Redesignated from executive director to non-executive director on 30 April 2019)	115	644	–	6	765
	115	644	–	6	765
Independent non-executive directors:					
Mr. Ng Wing Heng, Henry	120	–	–	–	120
Mr. Fong Kin Tat, Rick	120	–	–	–	120
Mr. Sze Irons	120	–	–	–	120
	360	–	–	–	360
Total	475	3,019	–	59	3,553

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

	Year ended 31 December 2018				
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit scheme contributions	Total
		Note (a)		*Note (a)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Mr. Wong	–	904	–	18	922
Mr. Xi Bin	–	865	–	35	900
Mr. Hung Yuk Miu	–	1,547	–	18	1,565
	–	3,316	–	71	3,387
Independent non-executive directors:					
Mr. Ng Wing Heng, Henry	83	–	–	–	83
Mr. Fong Kin Tat, Rick	83	–	–	–	83
Mr. Sze Irons	83	–	–	–	83
	249	–	–	–	249
Total	249	3,316	–	71	3,636

Notes:

(a) Salary and retirement benefit scheme contributions paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with management of the affairs of the company or its subsidiary undertakings.

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

(c) Neither the chief executive officer nor any of the directors waived any emoluments during the years ended 31 December 2019 and 2018.

(d) No emoluments were paid by the Group to the directors of the Company as an inducement for joining the Group or as compensation for loss of office for the years ended 31 December 2019 and 2018.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

Notes: (Continued)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiaries undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of affairs of the Company or its subsidiaries undertaking		Total	
2019 *HK$'000*	2018 *HK$'000*	2019 *HK$'000*	2018 *HK$'000*	2019 *HK$'000*	2018 *HK$'000*
475	249	3,078	3,387	3,553	3,636

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2018: three) were directors and the chief executive officer of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2018: two) individuals were as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Salaries and other allowances	**1,062**	547
Retirement benefit scheme contributions	**27**	26
	1,089	573

Their emoluments were within the following bands:

	Number of individuals	
	2019	2018
Nil to HK$1,000,000	**2**	2

During the years ended 31 December 2019 and 2018, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

13. DIVIDENDS

Dividends payable to owners of the company attributable to the year

	2019 **HK$'000**	2018 HK$'000
Final dividend proposed after the end of the reporting period of HK1 cent per ordinary share (2018: nil per ordinary share)	**4,800**	–

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of reporting period and is subject to approval by the shareholders in the forthcoming general meeting.

14. EARNINGS PER SHARE

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

	2019	2018
Profit for the year attributable to owners of the Company *(HK$'000)*	**34,992**	24,281
Weighted average number of ordinary shares in issue *('000)*	**480,000**	435,945
Basic earnings per share *(HK cents per share)*	**7.29**	5.57

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

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2019 and 2018.

15. PLANT AND EQUIPMENT

	Machineries *HK$'000*	Office Equipment *HK$'000*	Motor Vehicles *HK$'000*	Total *HK$'000*
COST				
At 1 January 2018	1,087	1,954	2,356	5,397
Additions for the year	2,825	1,209	–	4,034
Exchange realignment	(146)	(129)	(48)	(323)
At 31 December 2018 and 1 January 2019	3,766	3,034	2,308	9,108
Additions for the year	–	788	1,652	2,440
Exchange realignment	(81)	(66)	(92)	(239)
At 31 December 2019	3,685	3,756	3,868	11,309
ACCUMULATED DEPRECIATION				
At 1 January 2018	107	895	1,123	2,125
Charge for the year	285	446	361	1,092
Exchange realignment	(15)	(55)	(18)	(88)
At 31 December 2018 and 1 January 2019	377	1,286	1,466	3,129
Charge for the year	826	310	443	1,579
Exchange realignment	(31)	(37)	(13)	(81)
At 31 December 2019	1,172	1,559	1,896	4,627
CARRYING VALUES				
At 31 December 2019	2,513	2,197	1,972	6,682
At 31 December 2018	3,389	1,748	842	5,979

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

Machineries	10 years
Office equipment	2 to 5 years
Motor vehicles	3 years

16. DEPOSIT PAID FOR ACQUISITION OF PLANT AND EQUIPMENT

During 2018, the Group entered into an agreement (the "Machine Design and Purchase Agreement") with a supplier under which the supplier has undertaken to conduct research, develop and appoint a qualified manufacturer to manufacture the machine, being a dyeing and finishing machinery which incorporates the nanotechnology and dyeing techniques developed by the Group at the consideration of HK$20,000,000.

As at 31 December 2019, full consideration (2018: HK$6,000,000) was paid.

In the event that the "Machine Design and Purchase Agreement" is terminated, the supplier shall be entitled to a fee equals to HK$200,000 ("Non-refundable Cost") notwithstanding the termination and the supplier shall, within 14 calendar days of termination, refund a sum equals to the all or part of the consideration paid after deducting the Non-refundable Cost and other reasonable expenses incurred by the supplier to the Group. For further details, please refer to announcement of the Company dated 27 November 2018.

The validity period of the Machine Design and Purchase Agreement has been extended to 30 June 2020.

17. LEASES

(i) Right-of-use assets

	31/12/2019	1/1/2019
	HK$'000	*HK$'000*
Leased properties	**959**	1,082
Motor vehicle	**709**	–
	1,668	1,082

The Group has lease arrangements for its leased properties and a motor vehicle. The lease terms are generally ranged from two to three years.

Right-of-use assets included of leased properties in the PRC in the amount of HK$633,000 and of lease property located in Hong Kong in the amount of HK$326,000.

In respect of the lease arrangement for renting motor vehicle, the Group has option to purchase motor vehicle for a nominal amount at the end of the lease term. The Group's obligation is secured by the lessor's title to the leased asset for such lease.

17. LEASES *(Continued)*

(ii) Lease liabilities

	31/12/2019 HK$'000	1/1/2019 HK$'000
Non-current	**420**	534
Current	**1,206**	548
	1,626	1,082

The remaining contractual maturities of the Group's lease liabilities are shown as follows.

	31/12/2019 HK$'000
Within one year	**1,206**
After one year but within two years	**354**
After two years but within five years	**66**
	1,626
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(1,206)**
	1,626
Amount due for settlement after 12 months	**420**

During the year ended 31 December 2019, the Group entered into two new lease agreements in respect of renting properties and recognised lease liabilities and right-of-use assets in aggregate of HK$1,682,000.

(iii) Amounts due recognised in profit or loss

	31/12/2019 HK$'000
Depreciation expense on right-of-use assets	**1,118**
Expense relating to short-term leases	**112**
Interest expense on lease liabilities	**109**

(iv) Others

At 31 December 2019, all committed lease agreements have been commenced.

During the year ended 31 December 2019, the total cash outflow for leases amount to HK$1,339,000.

18. INVENTORIES

	2019 HK$'000	2018 HK$'000
Work in progress	**32,647**	14,481
Finished goods	**6,658**	9,122
	39,305	23,603

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

	2019 HK$'000	2018 HK$'000
Trade receivables	**34,325**	32,058
Bills receivables	**619**	1,359
Gross amount of total trade and bill receivables arising from contracts with customers	**34,944**	33,417
Less: allowance for impairment of trade receivables	**(41)**	(98)
	34,903	33,319
Other receivables	**4,671**	3,193
Prepayments	**16,015**	24,047
Deposits	**122**	152
	20,808	27,392

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

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

	2019 ***HK$'000***	2018 *HK$'000*
Within 30 days	**33,792**	8,394
31 to 60 days	**808**	11,063
61 to 90 days	**–**	7,061
91 to 180 days	**–**	5,712
More than 180 days	**344**	1,187
Total	**34,944**	33,417

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

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

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

As at 31 December 2019	**Weighted average expected loss rate** *%*	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'000*
Within 90 days	0.075%	34,600	26
More than 90 days	4.36%	344	15
Total		34,944	41

As at 31 December 2018	Weighted average expected loss rate *%*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Within 90 days	0.16%	26,518	44
More than 90 days	0.78%	6,899	54
Total		33,417	98

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

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

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

	2019 **HK$'000**	2018 HK$'000
At the beginning of the year	**98**	–
(Reversal of impairment loss) impairment loss recognised for the year	**(57)**	98
At the end of the year	**41**	98

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

	2019 **HK$'000**	2018 HK$'000
United States Dollars ("USD")	**–**	2,857

20. CONTRACT LIABILITIES

	2019 **HK$'000**	2018 HK$'000
Current		
Manufacturing arrangements	**2,414**	7,613

Contract liabilities include advances received to deliver goods.

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

Revenue recognised during the year ended 31 December 2019 that was included in the contract liabilities at the beginning of the year is HK$7,613,000 (2018: HK$7,023,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in prior year.

The significant decrease in contract liabilities in 2019 is the result of the decrease in committed orders at the end of the year.

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2019, bank balances carried at prevailing market rates range from 0.01% to 0.30% per annum (2018: from 0.01% to 0.33% per annum). At 31 December 2019, the pledged bank deposits carry fixed interest rate range at 0.60% per annum (2018: from 2.72% to 3.8% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowing and facilities.

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

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

	2019 ***HK$'000***	2018 *HK$'000*
RMB	**2,810**	2,994
USD	**492**	84

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2019 ***HK$'000***	2018 *HK$'000*
Trade payables	**1,590**	3,307
Other payables and accruals:		
Accrued expenses	**1,452**	2,056
Other payables	**333**	269
Other tax payables	**5,315**	3,561
	7,100	5,886

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(Continued)*

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

	2019 ***HK$'000***	2018 *HK$'000*
Within 30 days	**1,589**	1,489
31 to 60 days	**–**	1,183
61 to 90 days	**–**	84
91 to 180 days	**1**	112
More than 180 days	**–**	439
Total	**1,590**	3,307

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

As at 31 December 2019 and 2018, the Group's trade and other payables that are denominated in foreign currency other than the functional currency of the relevant group entities are set out below:

	2019 ***HK$'000***	2018 *HK$'000*
USD	**–**	667

23. BANK BORROWING

	2019 HK$'000	2018 HK$'000
Secured bank borrowing	–	5,535
	–	5,535

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

	2019 HK$'000	2018 HK$'000
After two years but within five years	–	5,535
	–	5,535

	2019 HK$'000	2018 HK$'000
Carrying amount of bank borrowings that is not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	–	5,535

23. BANK BORROWING *(Continued)*

(a) The amounts of banking facilities and the utilisation at 31 December 2019 and 2018 are set out as following:

	2019 **HK$'000**	2018 *HK$'000*
Facilities amount	**10,000**	13,000
Utilisation – Secured bank borrowing	**–**	5,535

During the year ended 31 December 2019, the Group did not obtain any new borrowings (2018: HK$5,535,000). The loan of 2018 was secured by personal guarantees provided by Mr. Xi Bin, the director of the Company.

(b) As at 31 December 2019, there was no interest-bearing borrowing (2018: Interest-bearing borrowing carried interest at variable market interest rate based on PRC Loan Prime Rate plus 1.9% per annum as follows).

	2019	2018
Variable-rate borrowing	**–**	6.65%

24. DEFERRED TAXATION

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

	2019 **HK$'000**	2018 *HK$'000*
Net deferred tax asset	**(2,367)**	(1,742)
Net deferred tax liability	**400**	1,030
	(1,967)	(712)

24. DEFERRED TAXATION *(Continued)*

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

At 31 December 2019, the aggregate amount of temporary difference associated with undistributed earnings of the subsidiary for which deferred tax liability has not been recognised amounted to approximately HK$73,373,000 (2018: HK$63,864,000). No deferred tax liability has been recognised in respect of these undistributed earnings because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

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

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Withholding tax on undistributed earnings of a PRC subsidiary *HK$'000*	Total *HK$'000*
At 1 January 2018	70	(508)	1,000	562
Credited to profit or loss *(note 9)*	(40)	(1,234)	–	(1,274)
At 31 December 2018 and 1 January 2019	30	(1,742)	1,000	(712)
Credited to profit or loss *(note 9)*	(30)	(625)	(600)	(1,255)
At 31 December 2019	**–**	**(2,367)**	**400**	**(1,967)**

As at 31 December 2019, the Group has unused tax losses of approximately HK$19,934,000 (2018: HK$16,243,000). As at 31 December 2019, deferred tax asset of HK$2,367,000 (2018: HK$1,742,000) have been recognised in respect of approximately HK$12,135,000 (2018: HK$10,554,000) of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK$7,799,000 (2018: HK$5,689,000) due to the unpredictability of future profit streams.

As at 31 December 2018, included in unrecognised tax losses are loss of the Group of approximately HK$187,000, HK$2,885,000 and HK$473,000 and HK$2,144,000 will be expired in 2020, 2021, 2022 and 2023 respectively. As at 31 December 2019, HK$7,799,000 tax loss was not recognised and will be carried forward indefinitely.

25. SHARE CAPITAL

	Number of ordinary shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised		
As at 1 January 2018 *(notes i)*	10,000	100
Increase on 23 April 2018 *(note ii)*	9,990,000	99,900
As at 31 December 2018 and 2019	**10,000,000**	**100,000**
Issued and fully paid		
As at 1 January 2018 *(notes i and iii)*	–	–
Issue and allocated on 28 February 2018 *(notes iii)*	10,000	100
Issue by capitalisation of share premium account on 15 May 2018 *(note iv)*	350,000	3,500
Issue pursuant to placing and public offer *(notes iv and v)*	120,000	1,200
As at 31 December 2018 and 2019	**480,000**	**4,800**

Notes:

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

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

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

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

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

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

26. RETIREMENT BENEFITS PLAN

Hong Kong

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

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

PRC

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

For the year ended 31 December 2019, the total contribution to defined contribution retirement benefits scheme charged to the consolidated statements of profit or loss and other comprehensive income amounted to approximately HK$960,000 (2018: HK$1,040,000).

27. CAPITAL RISK MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	At 31 December	
	2019	2018
	HK$'000	*HK$'000*
Financial assets		
Financial assets at amortised cost (including bank balances and cash)	**97,642**	103,768
Financial liabilities		
At amortised cost	**3,375**	11,167

28. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

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

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

Market risk

(i) Currency risk

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

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

	Asset		Liability	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	***HK$'000***	HK$'000
RMB	**2,810**	2,994	**–**	–
USD	**492**	2,941	**–**	667

28. FINANCIAL INSTRUMENTS *(Continued)*

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

***Market risk** (Continued)*

(i) Currency risk (Continued)

Foreign currency sensitivity

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

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

	Impact on RMB	
	2019	2018
	HK$'000	*HK$'000*
Increase in profit before tax	**140**	150

This is mainly attributable to the exposure outstanding RMB receivables and payables.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances (note 21) and bank borrowing (note 23). The Group currently does not have any interest rate hedging policy. It is the Group's policy to keep pledged bank deposits, bank balances and bank borrowing at floating rate as to minimise the fair value interest rate risk.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK$252,000 (2018: HK$283,000) for the year ended 31 December 2019.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

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

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

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

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

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

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

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

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

	Internal credit rating	12-month or lifetime ECL	31 December 2019 Gross carrying amount	31 December 2019 Loss allowance	31 December 2019 Net carrying amount	31 December 2018 Gross carrying amount	31 December 2018 Loss allowance	31 December 2018 Net carrying amount
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	N/A	Lifetime ECL	34,944	(41)	34,903	33,417	(98)	33,319
Deposits and other receivables	Performing	12-month ECL	4,793	–	4,793	3,345	–	3,345
Pledged bank deposits	Performing	12-month ECL	2,791	–	2,791	6,078	–	6,078
Bank balances and cash	Performing	12-month ECL	55,155	–	55,155	61,026	–	61,026

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 99% and 99% of the total trade receivables as at 31 December 2019 and 2018.

As at 31 December 2019 and 2018, the Group has concentration of credit risk as 21% and 28% of the total trade and bills receivables was due from the Group's largest customer while 49% and 57% of the total trade and bills receivables was due from the Group's top five largest customers, respectively.

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowing with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

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

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity risk tables

	On demand or within one year *HK$'000*	More than one year but less than five years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2019				
Trade payables	1,590	–	1,590	1,590
Other payables and accruals	1,785	–	1,785	1,785
Lease liabilities	1,255	445	1,700	1,626
	4,630	445	5,075	5,001

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

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

29. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

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

	2018 ***HK$'000***
Within one year	**1,009**
In the second to fifth year (inclusive)	**234**
	1,243

(b) Capital commitment

As at 31 December 2019, the Group has the following capital commitments in respect of acquisition of plant and equipment:

	2019 ***HK$'000***	2018 *HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	–	14,000

30. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2019 and 2018, transactions with the following party are considered to be related party transactions:

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

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

(a) Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2019 and 2018, the Group has entered into transactions with related parties as follows:

Related party	Nature of transaction	**2019** **HK$'000**	2018 HK$'000
Zhongshan Da Chong Elastic Thread Factory Ltd.	Purchase of yarns	**1,239**	322

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

(b) Balance with related company

The following balances were outstanding at the end of the reporting period:

	2019 **HK$'000**	2018 HK$'000
Prepayment		
Proudy Limited	**286**	–

The balance represented prepayment of certain consultancy service.

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

30. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Banking facilities

Mr. Wong and Mr. Xi Bin, the directors of the Company, have provided limited personal guarantee of HK$21,000,000 for the grant of the banking facilities to the Group for the year ended 31 December 2018.

(d) Compensation to key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors are set out in note 11 to the consolidated financial statements.

31. SUBSIDIARIES OF THE GROUP

Name of subsidiary	Place of incorporation	Class of shares held	Paid up issued registered ordinary share capital	Proportion of ownership interest held by the Company Directly 2019 %	Directly 2018 %	Indirectly 2019 %	Indirectly 2018 %	Proportion of voting power held by the Company 31 December 2019 %	31 December 2018 %	Principal activities and place of operation
World Vantage	BVI	Ordinary shares	USD1	**100%**	100%	**N/A**	N/A	**100%**	100%	Investment holdings
Smart Team	Hong Kong	Ordinary shares	HK$10	**N/A**	N/A	**100%**	100%	**100%**	100%	Sales of functional knitted fibres and yarns
Guangdong Smart Team Textiles Technology Co., Ltd.*# ("Guangdong Smart Team") 廣東兆天紡織科技有限公司	PRC	Contributed	RMB10,000,000	**N/A**	N/A	**100%**	100%	**100%**	100%	Sales of functional knitted fabric
Smart Union#	PRC	Contributed	RMB1,000,000	**N/A**	N/A	**100%**	100%	**100%**	100%	Sales of functional knitted fabric
Magic Team (Beijing) International Fashion Design Co., Ltd.*# ("Magic Team") 幻天（北京）國際服裝設計有限公司	PRC	Contributed	RMB500,000	**N/A**	N/A	**100%** *(note)*	70%	**100%**	70%	Design and sales of apparel

* The English name is for identification only. The official name of the company is in Chinese.
\# Those subsidiaries are wholly foreign owned enterprises.

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

Note:

During the year, the Group acquired 30% of the issued share capital of Magic Team at zero consideration and resulted in an increase in its ownership interest to 100%. Non-controlling interest was increased by HK$411,000 and capital reserve was decreased by the same amount as a result of this transaction.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, the Group entered into new lease arrangement in respect of properties and motor vehicle. Right-of-use assets and lease liabilities of HK$1,682,000 were recognised at the commencement date of the leases.

During the year ended 31 December 2018, the contribution from the shareholder due to a deed of waiver dated 23 April 2018 executed by the shareholder and director of the Company, Mr. Wong and a subsidiary of the Company, Smart Team, pursuant to which an outstanding sum in the amount of HK$2,000,000 owed by Smart Team to Mr. Wong was irrevocably and unconditionally waived by Mr. Wong.

33. SUBSEQUENT EVENTS

Following the outbreak of the Novel Coronavirus ("COVID-19") disease in the PRC in early 2020, a series of precautionary and control measures have been implemented in the PRC, including extension of the Chinese New Year holiday, postponement on work resumption after Chinese New Year holiday in some regions, certain level of restriction and controls over the travelling of people and traffic arrangement.

The directors of the Company are monitoring the situation and continue to assess and react actively to the impact of COVID-19 outbreak on the Group's operations, financial position and financial performance accordingly.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amount due to a director *HK$'000*	**Bank Borrowing** *HK$'000*	**Lease liabilities** *HK$'000*	**Total** *HK$'000*
At 1 January 2018	9,411	3,000	–	12,411
Financing cash flows	(7,411)	2,730	–	(4,681)
Non-cash changes				
Foreign exchange movement	–	(195)	–	(195)
Capital contribution *(note 32)*	(2,000)	–	–	(2,000)
At 31 December 2018	–	5,535	–	5,535
Non-cash changes				
Impact on adoption of HKFRS 16	–	–	1,082	1,082
At 1 January 2019	**–**	**5,535**	**1,082**	**6,617**
Financing cash flows	–	(5,535)	(1,227)	(6,762)
Non-cash changes				
Interest expense	–	–	109	109
Foreign exchange movement	–	–	(20)	(20)
Movement in lease liabilities			1,682	1,682
At 31 December 2019	**–**	**–**	**1,626**	**1,626**

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

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Investment in a subsidiary		**100**	100
Current assets			
Amount due from a subsidiary	(i)	**53,096**	32,658
Bank balances and cash		**57**	21,167
NET ASSETS		**53,253**	53,925
Capital and reserves			
Share capital	25	**4,800**	4,800
Reserves	(ii)	**48,453**	49,125
Total equity		**53,253**	53,925

Notes:

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

(ii) Movements in reserves

	Share premium HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2018	–	–	–
Loss for the year	–	(4,264)	(4,264)
Total comprehensive expense for the year	–	(4,264)	(4,264)
Issue of shares pursuant to placing and public offering	(3,500)	–	(3,500)
Issue of shares by capitalisation of share premium account	68,400	–	68,400
Expenses incurred in connection with issue of new shares	(11,511)	–	(11,511)
At 31 December 2018 and 1 January 2019	53,389	(4,264)	49,125
Loss for the year	–	(672)	(672)
Total comprehensive expense for the year	–	(672)	(672)
At 31 December 2019	53,389	(4,936)	48,453