

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)

Third
Quarterly
Report

2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

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

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P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

Headquarter and Principal Place of Business in Hong Kong

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Hong Kong

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
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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 Dex 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 HIGHLIGHTS

The Group recorded revenue and gross profit of approximately HK\$88,868,000 and HK\$26,285,000 for the nine months ended 30 September 2020, representing a decrease of approximately 32.2% and 47.0% respectively compared with revenue and gross profit of approximately HK\$131,010,000 and HK\$49,567,000 for the nine months ended 30 September 2019. The Directors attribute such significant decrease in revenue principally to the global outbreak of the novel coronavirus pandemic ("**COVID-19**") since early 2020 and the implementation of various aggressive preventive control measures by the government of the People's Republic of China (the "**PRC**"), resulting in not only a temporary suspension of operation of the Group and the business operations of the Group's customers in the first quarter of 2020 but also a weakened economy in general; and thus a decrease in purchase orders received from customers of the Group during the nine months ended 30 September 2020. The decrease in gross profit margin was primarily due to the challenging market environment. Nevertheless, to remain competitive, the Group continuously incurred research and development expenses and other overhead costs despite the decrease in revenue during the period.

As a result of the foregoing, the Group recorded a net profit after tax of HK\$7,517,000 for the nine months ended 30 September 2020 when compared with a net profit after tax of HK\$30,209,000 for the nine months ended 30 September 2019.

Notwithstanding that COVID-19 is still prevalent and the economy is yet to be recovered, the Group achieved an improved performance from loss after tax of approximately HK\$4,376,000 for the three months ended 31 March 2020 to net profit after tax of approximately HK\$5,603,000 and HK\$6,290,000 for the three months ended 30 June 2020 and 30 September 2020 respectively. It was mainly attributable to the fact that the Group and its customers have gradually resumed the business operations since the second quarter of 2020 and that management of the Group has been actively looking for new customers and purchase orders.

The board of Directors (the "**Board**") does not recommend the payment of a dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and nine months ended 30 September 2020

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|--|-------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Revenue | 4 | 46,782 | 45,698 | 88,868 | 131,010 |
| Cost of sales | | (33,864) | (25,704) | (62,583) | (81,443) |
| Gross profit | | 12,918 | 19,994 | 26,285 | 49,567 |
| Other income | | 116 | 659 | 1,499 | 1,166 |
| Selling and distribution expenses | | (741) | (1,084) | (2,564) | (3,771) |
| Administrative and other expenses | | (4,658) | (3,814) | (15,387) | (13,454) |
| Finance costs | 6 | (231) | (57) | (370) | (303) |
| Profit before tax | | 7,404 | 15,698 | 9,463 | 33,205 |
| Income tax | 7 | (1,114) | (16) | (1,946) | (2,996) |
| Profit for the period | 8 | 6,290 | 15,682 | 7,517 | 30,209 |
| Other comprehensive income (expense) for the period | | | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | | | |
| Exchange differences arising on translation of foreign operations | | 6,202 | (4,031) | 3,298 | (4,889) |
| Total comprehensive income for the period | | 12,492 | 11,651 | 10,815 | 25,320 |

| | Notes | Three months ended | | Nine months ended | |
|---------------------------------------|-------|--------------------|-------------|-------------------|-------------|
| | | 30 September | | 30 September | |
| | | 2020 | 2019 | 2020 | 2019 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Profit for the period attributable to | | | | | |
| Owners of the Company | | 6,290 | 15,682 | 7,517 | 30,209 |
| Non-controlling interests | | - | - | - | - |
| | | 6,290 | 15,682 | 7,517 | 30,209 |
| Total comprehensive income for | | | | | |
| the period attributable to | | | | | |
| Owners of the Company | | 12,492 | 11,651 | 10,815 | 25,320 |
| Non-controlling interests | | - | - | - | - |
| | | 12,492 | 11,651 | 10,815 | 25,320 |
| Earnings per share | | | | | |
| – basic and diluted (HK\$ cents) | 9 | 1.31 | 3.27 | 1.57 | 6.29 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2020

| | Attributable to owners of the Company | | | | | | Total HK\$'000 | Non- controlling interests HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|------------------------------|--------------------------------|--|----------------------------------|---|-------------------|--|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Statutory reserve HK\$'000 (Note a) | Retained earnings HK\$'000 | Exchange reserve HK\$'000 (Note b) | | | |
| At 1 January 2019 (audited) | 4,800 | 53,389 | 2,235 | 5,797 | 74,551 | (3,466) | 137,306 | (411) | 136,895 |
| Profit for the period | - | - | - | - | 30,209 | - | 30,209 | - | 30,209 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (4,889) | (4,889) | - | (4,889) |
| Total comprehensive income (expenses) for the period | - | - | - | - | 30,209 | (4,889) | 25,320 | - | 25,320 |
| Changes in ownership interest in subsidiaries | - | - | (411) | - | - | - | (411) | 411 | - |
| At 30 September 2019 (unaudited) | 4,800 | 53,389 | 1,824 | 5,797 | 104,760 | (8,355) | 162,215 | - | 162,215 |
| At 1 January 2020 (audited) | 4,800 | 53,389 | 1,824 | 5,797 | 109,543 | (8,049) | 167,304 | - | 167,304 |
| Profit for the period | - | - | - | - | 7,517 | - | 7,517 | - | 7,517 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | 3,298 | 3,298 | - | 3,298 |
| Total comprehensive income for the period | - | - | - | - | 7,517 | 3,298 | 10,815 | - | 10,815 |
| Dividend approved in respect of the previous year | - | (4,800) | - | - | - | - | (4,800) | - | (4,800) |
| At 30 September 2020 (unaudited) | 4,800 | 48,589 | 1,824 | 5,797 | 117,060 | (4,751) | 173,319 | - | 173,319 |

Notes:

(a) 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 of the relevant PRC entities and some entities of the Group in the PRC are in accumulated loss position, therefore, no transfer to the PRC statutory reserve for the period ended 30 September 2020.

(b) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the three and nine months ended 30 September 2020

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 “**Share Offer**”).

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 is Room 1006, 10/F., 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 condensed consolidated financial information are presented in thousands of units of Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company and its Hong Kong subsidiary. Renminbi (“**RMB**”) is the functional currency of the PRC subsidiaries of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial information have been prepared on the historical cost basis.

The unaudited condensed consolidated financial information for the nine months ended 30 September 2020 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosure requirements of the GEM Listing Rules. The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements for the nine months ended 30 September 2020 are consistent with those adopted in the annual report for the year ended 31 December 2019 except for the adoption of new or revised HKFRSs which include HKFRSs, Hong Kong Accounting Standards (“**HKASs**”), amendments and interpretations issued by the HKICPA effective for the Group’s financial year beginning on 1 January 2020. Details of any changes in accounting policies are set out in note 3.

3. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2020:

| | |
|---|---|
| Amendments to HKFRS 3 | Definition of a business |
| Amendments to HKAS 1 and HKAS 8 | Definition of material |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting 2018 |
| Amendments to HKAS 16 | Covid-19-Related Rent Concession |

Other than the amendments to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The application of new and amendments to HKFRSs in the current period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial information.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

4. 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:

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|--|--|--|--|
| | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) |
| Revenue from contracts with customers within the scope of HKFRS 15 | | | | |
| Disaggregated by major products | | | | |
| – Sales of functional knitted fabrics | 43,677 | 39,736 | 76,178 | 119,358 |
| – Sales of apparel | 3,073 | 5,776 | 7,828 | 11,057 |
| – Sales of yarns | 32 | 186 | 4,862 | 595 |
| | 46,782 | 45,698 | 88,868 | 131,010 |

The above revenue are all recognised at a point in time.

5. SEGMENT INFORMATION

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

The Group is organised into a single operating segment as sales of functional knitted fabrics, 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.

5. SEGMENT INFORMATION *(Continued)*

Information about major customers

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|----------------------------|--|--|--|--|
| | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) |
| Customer A | 11,369 | 13,996 | 25,736 | 47,482 |
| Customer B ^{Note} | 21,842 | – | 21,842 | – |

^{Note} The revenue from Customer B in the corresponding period(s) in 2019 did not contribute over 10% of the total revenue of the Group in the corresponding period(s) in 2019.

6. FINANCE COSTS

| | Three months ended 30 September | | Nine months ended 30 September | |
|----------------------------------|--|--|--|--|
| | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) |
| Interests on: | | | | |
| – Bank borrowings and overdrafts | 220 | 31 | 318 | 224 |
| – Lease liabilities | 11 | 26 | 52 | 79 |
| | 231 | 57 | 370 | 303 |

7. INCOME TAX

| | Three months ended 30 September | | Nine months ended 30 September | |
|-------------------------------------|------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Current tax: | | | | |
| – PRC Enterprise Income Tax (“EIT”) | 1,313 | 1,069 | 1,622 | 4,049 |
| Deferred taxation | (199) | (1,053) | 324 | (1,053) |
| | 1,114 | 16 | 1,946 | 2,996 |

Hong Kong profit tax is calculated at 16.5% on the estimated assessable profit for the nine months ended 30 September 2020 and 2019.

No provision for Hong Kong Profits Tax has been made as there are no assessable profits for the nine months ended 30 September 2020 and 2019.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and implementation regulations of the EIT Law, the tax rate applicable to the subsidiaries of the Company established in the PRC is 25% for the nine months ended 30 September 2020 and 2019.

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

Pursuant to the laws and regulations of the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Staff costs, excluding directors' emolument: | | | | |
| Salaries, allowances and other benefits | 2,787 | 2,989 | 9,891 | 10,471 |
| Contributions to retirement benefits scheme | 68 | 184 | 257 | 540 |
| | 2,855 | 3,173 | 10,148 | 11,011 |
| Amount of inventories recognised as an expense | 29,185 | 25,704 | 53,594 | 81,443 |
| Depreciation of plant and equipment | 245 | 454 | 1,132 | 1,201 |
| Depreciation of right-of-use assets | 285 | 281 | 862 | 803 |
| Interest income | (100) | (96) | (442) | (228) |
| Expenses relating to short term lease | 26 | 50 | 125 | 154 |
| Research and development expenses (note) | 3,510 | 746 | 5,619 | 2,901 |
| Exchange loss, net | 1 | – | 49 | 35 |

Note:

The research and development expenses disclosed herein excluded salaries, allowances and other benefits of approximately HK\$2,266,000 and HK\$2,619,000, and contributions to retirement benefits scheme of approximately HK\$69,000 and HK\$97,000 for the periods ended 30 September 2020 and 2019 respectively which had been included in salaries, allowances and other benefits disclosed above.

9. EARNING PER SHARE

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

| Notes | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share | 6,290 | 15,682 | 7,517 | 30,209 |

| Notes | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|-----------------------------|-----------------------------------|-----------------------------|
| | 2020 '000 (Unaudited) | 2019 '000 (Unaudited) | 2020 '000 (Unaudited) | 2019 '000 (Unaudited) |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | 480,000 | 480,000 | 480,000 | 480,000 |

Diluted earnings per share were the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for the three months and nine months ended 30 September 2020 and 2019.

10. DIVIDENDS

The Board has resolved not to declare dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

Dividends payable to equity owners attributable to the previous financial year, approved and paid during the nine months ended 30 September 2020 and 2019:

| | Nine months ended 30 September | |
|--|---------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Final dividend in respect of the previous financial year, approved and paid during the period, of 1 HK cent per share (nine months ended 30 September 2019: Nil) | 4,800 | — |

11. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial information, the Group has the following transactions with related parties:

(a) Transactions with related parties

| Related party | Nature of transaction | Three months ended 30 September | | Nine months ended 30 September | |
|--|-----------------------|------------------------------------|----------|-----------------------------------|----------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Zhongshan Da Chong Elastic Thread Factory Ltd.* | Purchase of yarns | 43 | – | 486 | 1,364 |
| Proudy Limited | Consultancy services | 30 | – | 704 | – |

- (1) Purchases of materials from 中山市大涌線廠有限公司 (Zhongshan Da Chong Elastic Thread Factory Ltd.*), a related company owned as to 15% by Mr. Wong and as to 85% collectively by the close family members of Mr. Wong, for the nine months ended 30 September 2020 were made on terms mutually agreed by the Group and related party and with reference to the prevailing market prices of the materials under the purchase agreements.
- (2) The consultancy agreement was entered by the Group and Proudy Limited, a company wholly owned by Mr. Hung Yuk Miu, a non-executive director of the Company, for the provision of certain consultancy services. Such consultancy agreement was negotiated on arm's length basis and the terms thereof are on normal commercial terms.

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

(b) Bank facilities

Mr. Xi Bin, an executive Director, has provided personal guarantee for the bank borrowings of approximately HK\$20,484,000 and HK\$5,514,000 to the Group for the periods ended 30 September 2020 and 2019, respectively.

(c) Compensation of key management personnel

The remuneration of key management personnel representing the directors of the Company, during the periods was as follows:

| | Three months ended 30 September | | Nine months ended 30 September | |
|--------------------------|------------------------------------|-------------------------|-----------------------------------|-------------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) |
| Short-term benefits | 935 | 929 | 2,802 | 2,701 |
| Post-employment benefits | 10 | 14 | 31 | 48 |
| | 945 | 943 | 2,833 | 2,749 |

The remuneration of the key management personnel is determined by the board of directors of the Company having regards to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the unaudited condensed consolidated financial information of the Group for the three and nine months ended 30 September 2020, together with the comparative figures for the corresponding periods in 2019.

Business Review and Outlook

The Group is a functional knitted fabrics provider in the PRC. Our products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. We design functional knitted fabrics through our product innovation capabilities, source our 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 our direct sales of functional knitted fabrics to our customers. With a view to diversifying our source of revenue and creating cross-selling opportunity, we also engage in the sales of apparel made of our functional knitted fabrics for our customers which are lingerie and apparel brand owners.

During the nine months ended 30 September 2020, the Group's business and operation have been affected by the outbreak and the continual spread of COVID-19 since January 2020. The implementation of various aggressive preventive control measures by the government of the PRC, not only resulted in a temporary suspension of operation of the Group and the business operations of the Group's customers but also an economic downturn since the first quarter of 2020. This has in turn resulted in a prominent decrease in purchase orders from customers of the Group during the nine months ended 30 September 2020. Despite the business performance of the Group is still adversely affected by the impact of COVID-19 and the weakened economy in general, the Group has achieved an improved performance from the first quarter to the third quarter of 2020, in terms of quarterly revenue and profits. Management will continue to closely monitor the market conditions and the pandemic development and to adopt a tightened cost control; and other cautious approaches have been adopted by management with an aim to coping with the challenging business environment.

Looking ahead, despite the current challenging market and environment caused by the COVID-19 outbreak, the Group will continue to devote resources towards the research and development of functional knitted fabrics as well as the dyeing methodology.

Financial Review

Revenue

The following table set forth an analysis of our revenue by products during the three months and nine months ended 30 September 2020 and 2019.

| | Three months ended | | Nine months ended | |
|-------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | 30 September 2020 HK\$'000 | 30 September 2019 HK\$'000 | 30 September 2020 HK\$'000 | 30 September 2019 HK\$'000 |
| Sales of functional knitted fabrics | 43,677 | 39,736 | 76,178 | 119,358 |
| Sales of apparel | 3,073 | 5,776 | 7,828 | 11,057 |
| Sales of yarns | 32 | 186 | 4,862 | 595 |
| | 46,782 | 45,698 | 88,868 | 131,010 |

The Group's revenue decreased by approximately HK\$42,142,000 or 32.2%, from approximately HK\$131,010,000 for the nine months ended 30 September 2019 to approximately HK\$88,868,000 for the nine months ended 30 September 2020. The decrease was mainly due to the significant decrease in sales of functional knitted fabrics which was resulted from the decrease in sales orders from certain customers as their business operations were temporarily suspended in the first quarter 2020 as well as weakened economy in general due to global outbreak of COVID-19.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately HK\$23,282,000, or 47.0%, from approximately HK\$49,567,000 for the nine months ended 30 September 2019 to approximately HK\$26,285,000 for the nine months ended 30 September 2020, which was mainly caused by the decrease in sales orders. The gross profit margin decreased by approximately 8.3 percentage points from approximately 37.8% for the nine months ended 30 September 2019 to approximately 29.6% for the nine months ended 30 September 2020. The decrease in gross profit margin was mainly due to the challenging market environment and the continued incurrence of research and development expenses and other overhead costs despite the decrease in revenue so as to remain competitive.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately HK\$1,207,000, or 32.0%, from approximately HK\$3,771,000 for the nine months ended 30 September 2019 to approximately HK\$2,564,000 for the nine months ended 30 September 2020 which was mainly due to decrease in advertising and exhibition, transportation, travelling and entertainment expenses since there has been a temporary suspension of the Group's operation in the first quarter 2020 and fewer marketing activities due to the outbreak of COVID-19.

Administrative and other expenses

The Group's administrative and other expenses increased by approximately HK\$1,933,000, or 14.4%, from approximately HK\$13,454,000 for the nine months ended 30 September 2019 to approximately HK\$15,387,000 for the nine months ended 30 September 2020. The increase was mainly caused by bank charge for application of bank loan of approximately HK\$255,000, training and consultancy expense for sales team and senior management of the Group of approximately HK\$759,000 and increase in depreciation of plant and equipment of approximately HK\$175,000.

Income tax expenses

For the nine months ended 30 September 2020 and 2019, our income tax expenses were approximately HK\$1,946,000 and HK\$2,996,000, respectively, and the effective tax rate for the same period was approximately 20.6% and 9.0%, respectively. Increase in effective tax rate was attributable to the deferred tax assets partially utilised by a subsidiary in the PRC during the period while the deferred tax assets of HK\$1,053,000 for tax loss recognised by the subsidiaries in the PRC during the nine months ended 30 September 2019 resulting in a lower effective tax rate.

Profit for the period attributable to owners of the Company

As a result of the foregoing, the profit for the period attributable to owners of the Company decreased by HK\$22,692,000 or 75.1% from approximately HK\$30,209,000 for the nine months ended 30 September 2019 to approximately HK\$7,517,000 for the nine months ended 30 September 2020.

Dividends

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus of the Company dated 30 April 2018 ("**Prospectus**"), the Group does not have other plans for material investments and capital assets. Reference is also made to the announcement of the Company dated 11 August 2020 relating to the delay in timeline of the actual application of the net proceeds from the Share Offer.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the nine months ended 30 September 2020, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

Significant Investment Held

The Group did not hold any significant investments during the nine months ended 30 September 2020.

Commitments and Contingent Liabilities

As at 30 September 2020, the Group had no material capital commitments and contingent liabilities.

Employees and Remuneration Policies

As at 30 September 2020, the Group had 77 employees (30 September 2019: 80) and most of them were working in our Dongguan office. We incurred staff costs inclusive of performance related bonus, bonus and Directors' remuneration in the aggregate amount of approximately HK\$12,981,000 and HK\$13,760,000 for the nine months ended 30 September 2020 and 2019, 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.

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

As at 30 September 2020, 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) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to in Rule 5.47 of the GEM Listing Rules were as follows:

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

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

Notes:

- 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.
- 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 30 September 2020, 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 nine months ended 30 September 2020 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' and Other Persons' Interests and Short Positions in Shares and Underlying Shares of the Company

So far as is known to any Directors or chief executive of the Company, as at 30 September 2020, 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 interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as required to be 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 30 September 2020, 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.

Competing Interests

During the nine months ended 30 September 2020 and up to the date of this report, none of the Directors or the substantial shareholders of the Company or their respective 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 has or may have any conflicts of interest with any business of the Group.

Audit Committee

The Company has established the audit committee (the “**Audit Committee**”) on 23 April 2018 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference. The full terms of reference setting out details of duties of the Audit Committee are in compliance with the Corporate Governance Code (the “**CG Code**”) set out in Appendix 15 to the GEM Listing Rules and are available on the websites of the Stock Exchange and the Company. The Audit Committee comprises three independent non-executive Directors, 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 the Group’s unaudited condensed consolidated financial information for the nine months ended 30 September 2020, which have been approved by the Board on 12 November 2020 prior to its issuance. The Audit Committee is of the view that the unaudited condensed consolidated financial information for the nine months ended 30 September 2020 are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that sufficient disclosure has been made.

Securities Transactions by Directors

The Company has adopted a code of conduct (the “**Code of Conduct**”) regarding the dealing in securities of the Company by the Directors in accordance with Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, having made specific enquiries of all Directors, that all Directors have complied with the Code of Conduct during the nine months ended 30 September 2020 and up to the date of this report.

Purchase, Sale or Redemption of Listed Securities of the Company

During the nine months ended 30 September 2020 and up to the date of this report, the Company did not redeem any of its listed securities, nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities.

Corporate Governance Practices

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the CG Code. During the period and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code.

Interest of the Compliance Adviser

As confirmed by First Shanghai Capital Limited ("**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 September 2020 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.

For and on behalf of the Board
ST International Holdings Company Limited
Wong Kai Hung Kelvin
Chairman

Hong Kong, 12 November 2020

As at the date of this report, the executive Directors are Mr. Wong Kai Hung Kelvin and Mr. Xi Bin, the non-executive Director is Mr. Hung Yuk Miu, and the independent non-executive Directors are Mr. Sze Irons BBS JP, Mr. Fong Kin Tat and Mr. Ng Wing Heng, Henry.