HINGTEX HOLDINGS LIMITED
興紡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1968

2018
INTERIM REPORT

CONTENTS

FINANCIAL HIGHLIGHTS

	For the six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue	**383,181**	379,379
Gross profit	**123,768**	123,373
Gross profit margin	**32.3%**	32.5%
Profit before tax	**68,973**	98,098
Profit for the period attributable to owners of the Company	**57,463**	81,255
EARNINGS PER SHARE		
— Basic (HK cents)	**11.97**	16.93

COMPANY BACKGROUND

Hingtex Holdings Limited ("**Hingtex**" or the "**Company**") and its subsidiaries (collectively the "**Group**") is a long-established and leading denim fabric manufacturer in Hong Kong that targets the middle- to high-end market segment. Guided by the principle "Live in Style, Wear with Pride", the Group supplies denim fabrics primarily to reputable U.S. apparel brands for the production of denim garments. According to a report issued by Frost & Sullivan Limited (the "**Frost & Sullivan Report**"), Hingtex was ranked seventh and second in the middle- to high-end denim fabric manufacturing industry in China and South China region respectively in terms of production value in 2017, with a market share of approximately 1.9% and 5.4% respectively.

The Group prides itself on its ability to develop new denim fabrics and improve existing denim fabrics in a timely manner to meet the changing needs of its customers. Hingtex's commitment to innovation was awarded Innovative Award 2016 (accredited by AMERICAN EAGLE OUTFITTERS, INC. ("**AEO**")). What is more, the Group's ability to create unique compositions of yarns and dyes makes it difficult for rivals to replicate. Furthermore, its ISO 9001: 2008 and ISO 14001 certified quality management systems enable Hingtex to produce functional denim fabrics of a consistently high quality. Such strengths are why the Group's ties with its top five apparel brand customers are strong, ranging from five to 10 years. Hingtex has also established business relations with over 30 apparel brands, and has supplied products to more than 120 customers, the majority of which are garment manufacturers. The Group is widely recognised by renowned U.S. apparel brands, as exemplified by a collaborative relationship with American Eagle Outfitters for the past eight years.

On 16 July 2018 (the "**Listing Date**"), Hingtex was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**"), marking an important milestone that will facilitate the Group's ongoing development.

BUSINESS REVIEW

In the first half of 2018, the global economic growth continued and is projected to reach 3.9% for the year. Although the growing trade tension between the United States (the "**U.S.**") and the PRC has been worrisome, the Group was relatively unaffected. During the review period, the Group focused on capturing opportunities arising from growing fashion awareness amongst the general public and soliciting new orders with existing customers from the U.S. and other overseas brands. In particular, the sales of Hingtex during the review period were vastly driven by the rising popularity of branded stretch denim garments in the adolescents males and the men's fashion markets. Tremendous efforts were also placed on researching novel ideas in manufacturing denim fabric with new functionalities while maintaining high quality and trendiness.

During the review period, the Group's revenue increased modestly by approximately 1.0% period-on-period to HK$383.2 million. Despite a general increase in the price of materials and rise in staff cost, gross profit margin remained relatively stable at 32.3% (corresponding period in 2017: 32.5%), resulting in a gross profit of approximately HK$123.8 million (corresponding period in 2017: HK$123.4 million). Due to non-recurring one-off listing expenses of HK$13.3 million that were recognised during the review period and increase in administrative expenses since the second half of 2017, profit attributable to owners of the Company decreased by 29.3% to HK$57.5 million (corresponding period in 2017: HK$81.3 million) for the six months ended 30 June 2018. Excluding the impact of the listing expenses and other non-recurring one-off items, profit attributable to owners of the Company would have decreased by approximately 0.5% to HK$70.7 million (corresponding period in 2017: HK$71.1 million).

Performance by products

Hingtex specialises in manufacturing stretchable denim fabrics with various properties, including variations in yarn composition, weight, pattern, stretchability and indigo tones. Hingtex's product development team has introduced over 300 types of stretchable blended denim fabrics over the past three years.

The Group's key denim fabric products are categorised into three types, namely (i) stretchable blended denim fabrics; (ii) stretchable cotton denim fabrics; and (iii) non-stretchable denim fabrics.

Stretchable blended denim fabrics

Stretchable blended denim fabrics are made of at least 1% stretchable synthetic yarn (stretchable fibre wrapped with synthetic fibres) and the remainder with pure cotton yarn. This type of fabric has certain properties, such as high stretchability and strong recovery, softness and lightness, enabling denim jeans made from the fabric to be more form-fitting. It has given fashion designers more possibilities for upgrading the functionality of garments, and is highly praised and welcomed by Hingtex's customers.

Owing to the rising demand for denim garments with stretchable fabric properties, including from many garment designers wanting to incorporate such fabrics into their clothing designs, the Group enjoyed strong demand for stretchable denim fabrics during the review period. As a consequence, stretchable blended denim fabrics continue to be the Group's key product, accounting for approximately 90.0% of total revenue (2017: 80.5%), and generating a segment revenue of HK$344.8 million during the review period, representing a year-on-year increase of 12.9%. Since stretchable blended denim fabric has a lower fabric unit weight as compared with other types of denim fabrics, it requires less yarns to manufacture the same yardage of fabric, and is therefore able to achieve a higher margin. This increase was particularly driven by the rising popularity of denim clothing for men.

Stretchable cotton denim fabrics

Stretchable cotton denim fabrics are made from a minimum of 1% stretchable cotton yarn (stretchable fibre wrapped with cotton) and the remainder made from pure cotton yarn. With the group's strategic focus in the sales of stretchable blended denim fabric, revenue generated from this segment totalled HK$26.7 million (2017: HK$52.7 million), which accounted for 7.0% of the Group's total revenue.

Non-stretchable denim fabrics

Non-stretchable denim fabrics are made entirely from cotton yarn. Revenue generated from this segment amounted to HK$10.1 million for the review period (2017: HK$21.0 million), and was primarily due to the greater acceptance of stretchable denim garments by the general public and thus a stronger demand for same, in particular the men's market.

FINANCIAL REVIEW

As at 30 June 2018, the bank balances and cash amounted to approximately HK$31.0 million (31 December 2017: HK$154.0 million) and the net current assets amounted to approximately HK$107.6 million (31 December 2017: HK$148.4 million). Bank balances and cash decreased by HK$123.0 million to HK$31.0 million (31 December 2017: HK$154.0 million), primarily due to the declaration of a special dividend amounting to HK$100.0 million, of which HK$72.5 million was settled in cash. Inventories increased by HK$36.7 million to HK$249.2 million (31 December 2017: HK$212.5 million) as a result of a general increase in the cost of raw materials as well as the increase in quantity manufactured for expected orders to be delivered during the second half of 2018. With no significant changes in terms of credit period for our customers, trade and bills receivables increased by HK$44.5 million to HK$90.6 million (31 December 2017: HK$46.1 million) following the Group's seasonality factor as there were more sales in the second quarter of 2018 when compared with the fourth quarter of 2017. Current liabilities remained stable at HK$298.7 million (31 December 2017: HK$305.2 million) mainly due to the tax payments of HK$22.8 million as offset by the proceeds from bank borrowings of HK$21.9 million during the period under review.

As at 30 June 2018, the Group had no capital commitment (31 December 2017: Nil).

FUTURE PROSPECTS AND STRATEGIES

According to the Frost & Sullivan report, the retail value of the denim garment market in Europe and the PRC are projected to grow at a CAGR of 7.3% and 8.8% between 2017 and 2021, respectively, which suggests that the industry has immense growth potential, driven by healthy demand. With Hingtex's long history and ample experience in manufacturing a variety of denim fabrics, it is poised to tap such potential.

To seize opportunities and achieve long-term growth, Hingtex will strive to strengthen its leading position in the denim fabric manufacturing industry. Towards this objective, it will broaden its customer base by entering into new markets. Apart from securing orders from existing customers, Hingtex will place greater effort and resources towards penetrating the PRC market and expanding into European market. In respect of the former, it plans to establish a sales office in Guangzhou, as well as attend national trade shows. As for the latter, the Group appointed a sales agent in Italy in January 2018 to help secure more orders. Hingtex also intends to attend international fabric exhibitions and fashion shows such as Kingpins Shows to raise its global profile. On the product front, the Group will continue to explore and develop new denim fabrics with the use of new yarns, and which will be targeted towards the US and European markets.

Besides enhancing market penetration, the Group will seek to raise production capacity and efficiency, as well as strengthen its product development capability. The Group plans to purchase new production machinery to fulfil these objectives, and has been in talks to purchase dyeing and finishing machines. Such machinery is expected to be ready for installation and operation by the second half of 2019, and will enable the Group to enjoy greater economies of scale, as well as be better equipped to develop new denim fabric items for expanding its product portfolio.

While product development will be ongoing, the Group will also seek to adjust the composition of raw materials used and optimise the production processes involved. Furthermore, it will continue to leverage its network of renowned customers to stay abreast of market trends, including the consumption trend of its target consumers in different markets.

The Group is well aware of increasing downside risks precipitated by the Sino-US trade war. Hingtex, being a denim manufacturer, delivers its products to the manufacturers designated by its customers; hence it will make necessary adjustments in its deliveries if requested. At the same time, it will step up efforts to broaden its customer base, including actively expanding the Group's business in markets such as the PRC and Europe, which will also enable it to have a more diverse mix of customers.

Having become a constituent of the Main Board of SEHK subsequent to the review period, Hingtex will leverage its strengthened capital base to accelerate development of its sales network, as well as use its listing status and enhanced stature to grasp new business opportunities. Furthermore, with the Group's distinctive competitive edges and visionary and knowledgeable management team, it will seek to capitalise on the burgeoning denim fabric industry so as to build growth momentum and create greater value for its shareholders.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 16 July 2018, the shares of our Company (the "**Shares**") were listed on the Main Board of SEHK. The Group intends to apply the proceeds from the Listing in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 28 June 2018 (the "**Prospectus**").

Given that the Share Offer was completed after the period under review, there was no utilisation of the proceeds as at 30 June 2018. The implementation plan as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus will commence during the year ending 31 December 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2018, net current assets were approximately HK$107,631,000 (31 December 2017: HK$148,425,000). Bank balances and cash and restricted bank deposits as at 30 June 2018 were approximately HK$50,538,000 (31 December 2017: HK$173,392,000).

As at 30 June 2018, there were bank borrowings of approximately HK$95,321,000 (31 December 2017: HK$80,616,000).

GEARING RATIO

As at 30 June 2018, the gearing ratio of the Group, based on total borrowings (including bank borrowing and obligations under finance leases) to the equity (including all capital and reserves) of the Company was 39.2% (31 December 2017: 28.6%).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 470 employees. The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. Remuneration packages offered to the Group's employees are consistent with prevailing levels and are reviewed on a regular basis. Discretionary bonuses may be provided to selected employees taking into consideration the Group's performance and that of the individual employee. The Group provides training to employees. In the six months ended 30 June 2018, the Group had not encountered any significant problems with its employees, nor had there been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff.

TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. As at 30 June 2018, the Group's bank borrowings carried variable rates from 1.62% to 2.81% per annum. The Group has not experienced any material difficulty or liquidity problems resulting from foreign exchange fluctuations.

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

CONTINGENT LIABILITIES

As at 30 June 2018 and 31 December 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK$21,700,000 and HK$21,700,000, of which HK$18,875,000 and HK$20,468,000 had been utilised by the related party, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound. The financial guarantees were released subsequently upon the listing of the Shares on SEHK on 16 July 2018.

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

As the Shares have not been listed on the Stock Exchange as at 30 June 2018, the Model Code as set out in Appendix 10 of the Listing Rules was not applicable to the Company for the six months ended 30 June 2018. The Company has adopted the Model Code as rules governing dealings by the Directors in the listed securities of the Company on 16 July 2018. Based on specific enquiry with the Directors, all the Directors have compiled with the required standards as set out in the Model Code since the Listing Date and up to the date of this report.

CORPORATE GOVERNANCE

As the Shares were not listed on the Stock Exchange until 16 July 2018, the Code on Corporate Governance (the "**CG Code**") as set out in Appendix 14 of the Listing Rules was not applicable to the Company for the six months ended 30 June 2018. The Company has adopted the CG Code since the Listing Date. The Company confirms it has met the required standards as set out in the CG Code since the Listing Date and up to the date of this report.

AUDIT COMMITTEE

Our Company has established an audit committee (the "**Audit Committee**") in accordance with the requirements of the CG Code for the purpose of reviewing and supervising the Group's financial reporting process and overseeing the audit process of the Group. The Audit Committee currently has three independent non-executive directors, Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Mr. Tsang Ling Biu Gilbert is the chairman of the Audit Committee.

REVIEW OF THE INTERIM RESULTS

The Audit Committee had reviewed the unaudited condensed consolidated results of the Group for the period and discussed with the management of the Company the accounting principles and practices adopted by the Group as well as internal controls and other financial reporting matters.

INTERESTS OF DIRECTORS AND THE CHIEF EXECUTIVE

The Shares were not listed during the period from 30 June 2018 to 15 July 2018, and were listed on the Main Board of SEHK on 16 July 2018. As at the date of this report, the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to our Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to our Company and SEHK pursuant to the Model Code, are as follows:

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

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

Notes:

1. The letter "L" denotes a long position in the Shares.

2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

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

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

Note:

1. The letter "L" denotes long position in the shares held.

2. Manford Investment is interested in 75% of the issued Shares immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) and, accordingly, is the holding company of our Company within the meaning of the SFO.

3. Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

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

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as our Directors are aware, the following persons had an interest or short position in the Shares or the underlying Shares which were required to be disclosed to our Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO:

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

Notes:

1. The letter "L" denotes a long position in the Shares.

2. As at the date of this report, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.

3. Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.

4. Ms. Li Ka Mei is the spouse of Mr. Stanley Tung and is deemed, under the SFO, to be interested in all the Shares that Mr. Stanley Tung is interested.

5. Mr. Li Chi Hiu Lawrence is the spouse of Ms. Barbara Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Barbara Tung is interested.

6. Mr. Fung Cheong Chi is the spouse of Ms. Mabel Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Mabel Tung is interested.

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

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme upon the passing the written resolutions of our sole shareholder on 19 June 2018 (the "**Share Option Scheme**"). Pursuant to the Share Option Scheme, our Directors may grant options to eligible participants to subscribe for the Shares subject to the terms and conditions stipulated therein. Upon the listing of the Shares on SEHK on 16 July 2018, all conditions set forth have been satisfied. No share options had been granted under the Share Option Scheme since its adoption.

IMPORTANT EVENTS AFTER THE INTERIM PERIOD UNDER REVIEW

a. On the Listing Date, pursuant to the resolutions of our sole shareholder of the Company passed on 19 June 2018, our Directors are authorised to allot and issue a total of 479,500,000 Shares credited as fully paid at par to the holder of Shares on the register of members of our Company at the closing of business on 13 July 2018 in proportion to their shareholdings by way of capitalisation of the sum of HK$4,795,000 standing to the credit of the share premium account of our Company.

b. On the Listing Date, the Shares were listed on the Main Board of SEHK and 160,000,000 Shares were issued by our Company at the offer price of HK$1.12 per share. The net proceeds from the above issue amounted to approximately HK$147.5 million.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF HINGTEX HOLDINGS LIMITED
興紡控股有限公司
(incorporated in the Cayman Islands as an exempted company with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Hingtex Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institution of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2017 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	NOTES	Six months ended **30/06/2018** **HK$'000** **(unaudited)**	 30/06/2017 HK$'000 (unaudited)
Revenue	3	**383,181**	379,379
Cost of sales		**(259,413)**	(256,006)
Gross profit		**123,768**	123,373
Other income	4	**4,116**	13,500
Other gains and losses		**428**	(123)
Impairment losses, net of reversal		**(455)**	(169)
Selling and distribution expenses		**(12,638)**	(12,057)
Administrative expenses		**(31,502)**	(25,858)
Listing expenses		**(13,274)**	–
Share of profit of a joint venture		**82**	23
Finance costs		**(1,552)**	(591)
Profit before tax	5	**68,973**	98,098
Income tax expense	6	**(11,510)**	(16,843)
Profit and total comprehensive income for the period attributable to owners of the Company		**57,463**	81,255
EARNINGS PER SHARE			
— Basic (HK cents)	8	**11.97**	16.93

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	30/06/18 HK$'000 (unaudited)	31/12/17 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment	9	**90,814**	93,415
Prepaid lease payments		**18,757**	19,081
Intangible assets		**4,991**	5,358
Goodwill		**1,184**	1,184
Interest in a joint venture		**4,190**	4,108
Restricted bank deposits		**19,551**	19,435
Structured bank deposits		**7,800**	7,800
Deferred tax assets		**230**	–
		147,517	150,381
Current Assets			
Inventories		**249,227**	212,455
Trade and other receivables	10	**125,485**	77,732
Prepaid lease payments		**647**	647
Amount due from a joint venture	15	**–**	3,495
Amounts due from directors	15	**–**	5,380
Bank balances and cash		**30,987**	153,957
		406,346	453,666
Current Liabilities			
Trade and other payables	12	**184,515**	194,624
Amount due to a related company	15	**–**	739
Amount due to a joint venture	15	**726**	–
Tax liabilities		**17,004**	28,042
Obligations under finance leases		**1,134**	1,220
Contract liabilities		**15**	–
Bank borrowings	13	**95,321**	80,616
		298,715	305,241
Net Current Assets		**107,631**	148,425
Total Assets less Current Liabilities		**255,148**	298,806

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018

	NOTES	**30/06/18 HK$'000 (unaudited)**	31/12/17 HK$'000 (audited)
Capital and Reserves			
Share capital	14	**5**	1,605
Reserves		**247,381**	288,882
Equity attributable to owners of the Company and total equity		**247,386**	290,487
Non-current Liabilities			
Obligations under finance leases		**579**	1,153
Deferred tax liabilities		**7,183**	7,166
Total non-current liabilities		**7,762**	8,319
Capital and Reserves and Non-current Liabilities		**225,148**	298,806

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HK$'000	Other reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2017 (audited)	1,510	–	453,212	454,722
Profit and total comprehensive income for the period	–	–	81,255	81,255
At 30 June 2017 (unaudited)	1,510	–	534,467	535,977
At 1 January 2018 (audited) (note)	1,605	9,282	279,600	290,487
Remeasurement of allowance subject to expected credit losses ("ECL") (note 2)	–	–	(564)	(564)
At 1 January 2018 (restated)	1,605	9,282	279,036	289,923
Profit and total comprehensive income for the period	–	–	57,463	57,463
Dividend recognised as distribution (note 7)	–	–	(100,000)	(100,000)
Effect on reorganisation (note 1A)	(1,600)	1,600	–	–
At 30 June 2018 (unaudited)	5	10,882	236,499	247,386

Note:

On 7 July 2017, Kingshine Investment Group Limited ("Kingshine Group", a company comprising the Group) entered into a sale and purchase agreement with third parties, pursuant to which Kingshine Group acquired 57% of the entire issued share capital of Kingshine Investments Limited ("Kingshine Investments") (the "Acquisition"). The non-controlling interests of HK$9,282,000 represented the 43% equity interest held by Mr. Tung Tsun Hong ("Mr. TH Tung"), Mr. Tung Wai Ting Stephen ("Mr. Stephen Tung") and Mr. Tung Cheuk Ming Stanley ("Mr. Stanley Tung") at the date of the Acquisition. On 23 March 2018, through a share swap agreement, Kingshine Group acquired their respective equity interest, representing 16.0%, 13.5% and 13.5% of the entire issued share capital of Kingshine Investments from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung respectively. As such, the equity interest held by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung prior to the Acquisition totalling HK$9,282,000 was recognised as deemed contribution from shareholders in other reserve.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30/06/2018 HK$'000 (unaudited)	Six months ended 30/06/2017 HK$'000 (unaudited)
OPERATING ACTIVITIES		
Profit before tax	**68,973**	98,098
Adjustment for:		
Finance costs	**1,552**	591
Interest income	**(578)**	(10,590)
Share of profit of a joint venture	**(82)**	(23)
Depreciation of property, plant and equipment	**7,271**	3,563
Amortisation of intangible assets	**367**	–
Release of prepaid lease payments	**324**	27
Impairment losses recognised on trade receivables	**455**	169
Gain on disposal of property, plant and equipment	**(366)**	(102)
Net foreign exchange losses (gains)	**506**	(187)
Operating cash flows before movements in working capital	**78,422**	91,546
(Increase) decrease in inventories	**(36,772)**	25,492
Increase in trade and other receivables	**(46,891)**	(56,289)
(Decrease) increase in trade and other payables	**(3,254)**	12,630
Cash generated from operations	**(8,495)**	73,379
Income tax paid	**(22,761)**	(16,905)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(31,256)**	56,474
INVESTING ACTIVITIES		
Interest received	**578**	398
Proceeds on disposal of property, plant and equipment	**2,006**	2,736
Purchases of property, plant and equipment	**(6,310)**	(9,091)
Payment of consideration for acquisition of subsidiaries in prior year	**(6,840)**	–
(Placement) proceeds on maturity of restricted bank deposits	**(116)**	25
Advance to directors	**(27,411)**	(8,316)
Repayment from directors	**5,250**	–
Advance to a joint venture	**–**	(1,187)
Repayment form a joint venture	**3,495**	–
Advance to related companies	**–**	(4,280)
NET CASH USED IN INVESTING ACTIVITIES	**(29,348)**	(19,715)

For the six months ended 30 June 2018

	Six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Proceeds from bank borrowings	**21,926**	8,000
Repayment of bank borrowings	**(7,221)**	(4,941)
Repayment of finance leases	**(660)**	(1,077)
Interest paid	**(1,552)**	(591)
Dividend paid (note 7)	**(72,459)**	–
Payments of listing expenses	**(1,881)**	–
Repayments to directors	**–**	(1,055)
Advance from a joint venture	**726**	–
Repayment to related companies	**(739)**	(82)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(61,860)**	254
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(122,464)**	37,013
Cash and cash equivalents at 1 January	**153,957**	111,428
Effect of foreign exchange rate changes	**(506)**	187
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by		
Bank balances and cash	**30,987**	148,628

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL

In preparation of the proposed listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"), the companies now comprising the Group have completed a reorganisation on 23 March 2018 (the "Reorganisation"), pursuant to which the Company became the holding company of the companies now comprising the Group on 23 March 2018.

The functional currency of the Company is United States Dollars ("US$"), as the sales activities of the Group are mainly denominated in US$, and the presentation currency of the Group is Hong Kong Dollars ("HK$"), as the management of the Group consider HK$ can provide more meaningful information to the Company's investors.

The Company's shares have been listed on the Main Board of SEHK since 16 July 2018.

1A. BASIS OF PREPARATION

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The condensed consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the six-months ended 30 June 2018.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institution of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on SEHK (the "Listing Rules ").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's combined financial statements for the three years ended 31 December 2015, 2016 and 2017 underlying the preparation of the financial information included in the prospectus of the Company in connection with the initial public offering of the shares of the Company on the Main Board of SEHK issued on 28 June 2018.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below:

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contract with Customers

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

The Group recognises revenue from the following major sources of sales of denim fabrics:

- Non-stretchable denim fabrics
- Stretchable cotton denim fabrics
- Stretchable blended denim fabrics

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue*.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contract with Customers *(Continued)*

2.1.1 Key changes in accounting policies resulting from application on HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

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

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

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates and enhances an asset that the customer controls as the Group perform; or

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contract with Customers *(Continued)*

2.1.1 Key changes in accounting policies resulting from application on HKFRS 15 *(Continued)*

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 (or an amount of consideration is due) from the customer.

The Group recognises revenue from sales of denim fabrics at a point in time when the denim fabrics are delivered to customers based on the terms specified in the relevant contracts.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The impact of transition to HKFRS 15 arising from the initial application of HKFRS 15 on the Group's major revenue generating operation was insignificant on retained profits at 1 January 2018.

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

		Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK$'000
Current Liabilities				
Trade and other payables	Note	194,624	(208)	194,416
Contract liabilities	Note	–	208	208

Note: As at 1 January 2018, advances from customers of HK$208,000 previously included in trade and other payables related to sales of denim fabrics were reclassified to contract liabilities upon application of HKFRS 15.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contract with Customers *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15 *(Continued)*

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position as at 30 June 2018:

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current Liabilities			
Trade and other payables	155,875	15	155,990
Contract liabilities	15	(15)	–

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

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

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- 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.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies. In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model

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

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

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

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

Significant increase in credit risk

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model *(Continued)*

Significant increase in credit risk (Continued)

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

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

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model *(Continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL 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 effective interest rate determined at initial recognition.

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

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

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.2 Summary of effects arising from initial application of HKFRS 9

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

		Trade receivables HK$'000	Deferred tax assets HK$'000	Retained profits HK$'000
Closing balance at 31 December 2017 — HKAS 39		45,891	–	279,600
Effect arising from initial application of HKFRS 9:				
Remeasurement				
Impairment under ECL model	Note	(719)	155	(564)
Opening balance at 1 January 2018		45,172	155	279,036

Note: Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

As at 1 January 2018, the additional credit loss allowance of HK$564,000 (after tax) has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.2 Summary of effects arising from initial application of HKFRS 9 *(Continued)*

All loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables HK$'000
At 31 December 2017 — HKAS 39	(222)
Amounts remeasured through opening retained profits	(719)
At 1 January 2018	(941)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (Audited) HK$'000	**HKFRS 15** HK$'000	**HKFRS 9** HK$'000	**1 January 2018 (Restated)** HK$'000
Non-current Assets				
Deferred tax assets	–	–	155	155
Others with no adjustments	150,381	–	–	150,381
	150,381	–	155	150,536

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards *(Continued)*

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (Restated) HK$'000
Current Assets				
Trade and other receivables	77,732	–	(719)	77,013
Others with no adjustments	375,934	–	–	375,934
	453,666	–	(719)	452,947
Current Liabilities				
Trade and other payables	194,624	(208)	–	194,416
Contract liabilities	–	208	–	208
Others with no adjustments	110,617	–	–	110,617
	305,241	–	–	305,241
Net Current Assets	148,425	–	(719)	147,706
Total Assets less Current Liabilities	298,806	–	(564)	298,242
Capital and Reserves				
Share capital	1,605	–	–	1,605
Reserves	288,882	–	(564)	288,318
Equity attributable to owners of the Company and total equity	290,487	–	(564)	289,923
Non-current Liabilities				
Others with no adjustments	8,319	–	–	8,319

Note: The net effects arising from the initial application of HKFRS 15 and HKFRS 9 on the carrying amount of interest in a joint venture on the opening consolidated financial statements and the condensed consolidated financial statements for the current interim period were insignificant in the opinion of the directors of the Company.

Except as described above, the application of amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the chief executive officer (the "CODM"), in order to allocate resources to segments and to assess their performance.

During the six months ended 30 June 2018, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in manufacture of the denim fabrics. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in Hong Kong and the People's Republic of China ("the PRC"), and the Group's non-current assets are mainly located in the PRC.

Disaggregation of revenue

The following is an analysis of the Group's revenue from its major products and services:

	Six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Non-stretchable denim fabrics	**10,125**	20,988
Stretchable cotton denim fabrics	**26,733**	52,707
Stretchable blended denim fabrics	**344,782**	305,416
Others	**1,541**	268
	383,181	379,379

	Six months ended
	30/06/2018
	HK$'000
	(unaudited)
Timing of revenue recognition:	
A point in time	**383,181**

4. OTHER INCOME

	Six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest income from bank deposits	**578**	398
Imputed interest income on amounts due from related companies (note i)	**–**	10,192
Services fee from a joint venture (note ii)	**2,700**	2,700
Storage income	**210**	210
Government grant — unconditional	**628**	–
	4,116	13,500

Notes:

(i) The amounts represented the imputed interest income from amounts due from related companies, which was calculated at an effective interest rate of 8% per annum. The amounts due from related companies were settled in full during the year ended 31 December 2017.

(ii) The amounts mainly represented the services charges income from a joint venture of the Group. Service fee represents income from provision of management services including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK$450,000.

5. PROFIT BEFORE TAX

	Six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Directors' remunerations:		
— Emoluments, salaries and other benefits	**7,628**	4,620
— Retirement benefit scheme contributions	**18**	18
	7,646	4,638
Other staff salaries and allowances	**20,628**	14,808
Retirement benefit scheme contributions, excluding those of directors	**1,858**	1,060
Total employee benefits expenses	**30,132**	20,506
Capitalised in inventories	**(4,072)**	(1,506)
	26,060	19,000
Depreciation for property, plant and equipment	**7,271**	3,563
Release of prepaid lease payments	**324**	27
	7,595	3,590
Capitalised in inventories	**(1,731)**	(678)
	5,864	2,912
Cost of inventories recognised as expense	**259,413**	256,006

6. INCOME TAX EXPENSE

	Six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
— Hong Kong Profits Tax	**10,787**	15,291
— PRC Enterprise Income Tax	**469**	1,373
Under provision in prior years		
— Hong Kong Profits Tax	**378**	–
— PRC Enterprise Income Tax	**–**	43
Deferred tax	**(124)**	136
Total	**11,510**	16,843

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit during the period.

The PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2017: 25%) during the period.

7. DIVIDENDS

In May 2018, a special dividend amounting to HK$100,000,000 was recognised as distribution of the Company to its shareholders. Pursuant to the settlement agreements signed between the Group and Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Ms. Lau Chung Chau ("Mrs. Tung"), Ms. Tung Wei Ling Barbara ("Ms. Barbara Tung") and Ms. Tung Wai Lai Mabel ("Ms. Mabel Tung") (who are acting in concert on their ownership and exercise their control collectively over the Group, collectively referred to as the "Controlling Shareholders"), the amounts due from directors of HK$27,541,000 were offset against such special dividend.

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for each of the six months ended 30 June 2018 and 30 June 2017 is based on the following data:

	Six months ended	
	30/06/2018	30/06/2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earning for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**57,463**	81,255

	Six months ended	
	30/06/2018	30/06/2017
	'000	'000
	(unaudited)	(unaudited)
Number of ordinary shares for the purpose of basic earnings per share	**480,000**	480,000

The number of ordinary shares for the purpose of basic earnings per share has been retrospectively adjusted for the Reorganisation Issue and Capitalisation Issue (as defined in note 14). Please refer to note 14 for details.

No diluted earnings per share for the six months ended 30 June 2018 and 2017 was presented as the Company did not have any dilutive potential ordinary shares in issue for the six months ended 30 June 2018 and 2017.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired manufacturing equipment of approximately HK$6,310,000 (six months ended 30 June 2017: HK$9,091,000) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed certain of its manufacturing equipment with a carrying amount of approximately HK$1,640,000 (six months ended 30 June 2017: HK$2,634,000).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade and bills receivables	**90,637**	46,113
Less: allowance for doubtful debts	**(1,396)**	(222)
	89,241	45,891
Prepayments	**4,670**	3,818
Deferred listing expenses	**2,857**	976
Value-added tax recoverable	**25,991**	24,023
Utility and rental deposits	**1,494**	1,676
Others	**1,232**	1,348
	125,485	77,732

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

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**40,038**	27,790
31 to 60 days	**27,553**	9,275
61 to 120 days	**20,102**	5,558
121 to 180 days	**1,189**	3,036
181 to 365 days	**1,449**	232
More than 365 days	**306**	222
	90,637	46,113

Details of the impairment assessment are set out in Note 11.

11. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

As part of the Group's credit risk management, the Group applies internal credit rating to assess the impairment for its customers. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2018.

	Average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000
Very low risk	0.09%	55,264	52
Low risk	2.15%	31,880	684
Fair risk	18.84%	3,482	656
Substantial risk	40.31%	11	4
		90,637	1,396

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

During the current interim period, the Group provided HK$455,000 impairment allowance based on the provision matrix.

Allowance for impairment

The movement in the allowance for impairment during the current interim period was as follows.

	HK$'000
Balance at 1 January 2018*	941
Net remeasurement of loss allowance	455
Balance at 30 June 2018	1,396

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

12. TRADE AND OTHER PAYABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade and bills payables	**161,773**	167,424
Deposits received	**7,800**	8,346
Consideration payable for acquisition of subsidiaries	**–**	6,840
Advances from customers	**–**	208
Listing expenses payables	**2,205**	974
Payroll payables	**6,764**	6,186
Others	**5,973**	4,646
	184,515	194,624

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

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**71,491**	78,133
31 to 60 days	**47,677**	46,349
61 to 180 days	**42,605**	42,942
	161,773	167,424

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

13. BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately HK$21,926,000 (six months ended 30 June 2017: HK$8,000,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately HK$7,221,000 (six months ended 30 June 2017: HK$4,941,000) were made in line with the relevant repayment terms.

The Group's borrowings carried variable rates of 1.62% to 2.81% (31 December 2017: 1.26% to 2.42%) per annum. All the borrowings of the Group are secured by structured bank deposits/restricted bank deposits of the Group and/or assets held by the related companies which are controlled by the Controlling Shareholders.

14. SHARE CAPITAL

For the purposes of presentation of the condensed consolidated statement of financial position, the paid-in capital of the Group as at 31 December 2017 of HK$1,605,000 represents the aggregate of paid-in capital of the Company, Hingtex Group Limited ("Hingtex Group"), Kingshine Group, H.W. Textiles Company Limited ("HWT") and Kingstead Industrial Limited ("Kingstead Industrial") prior to the completion of the Reorganisation.

	Number of Shares	**Share capital** HK$'000
Ordinary shares of HK$0.01 each		
Authorised and issued:		
As at 31 December 2017	100,000	1
Reorganisation Issue (note)	400,000	4
As at 30 June 2018	500,000	5

Note: During the current interim period, for the purpose of the Reorganisation, the Company issued 400,000 new ordinary shares in total to Manford Investment Holdings Limited ("Manford Investment"), the immediate and ultimate holding company of the Company to acquire the entire equity interests in Hingtex Group, Kingshine Group, HWT and Kingstead Industrial (the "Reorganisation Issue"). Such shares rank pari passu in all respects with then existing shares of the Company. The difference between the aggregate paid-in capital of HK$1,605,000 as at 31 December 2017 and the paid-in capital of the Company of HK$5,000 as at 30 June 2018 was accounted for in the other reserves of the Company.

Subsequent to the reporting period, pursuant to the resolutions of the Company's sole shareholder, Manford Investment, the Company allotted and issued a total of 479,500,000 new ordinary shares on 13 July 2018 by way of capitalisation of a sum of HK$4,795,000 reserve of the Company ("Capitalisation Issue"). Such shares rank pari passu in all respects with then existing shares of the Company. Upon the completion of the Capitalisation Issue, the number of ordinary shares for the Company increased to 480,000,000.

15. RELATED PARTY DISCLOSURES

(a) Related party transactions

The Group entered into the following transactions with its related parties during the six months ended 30 June 2017 and 2018:

Related Party	Nature of transaction	Six months ended 30/06/2018 HK$'000	Six months ended 30/06/2017 HK$'000
Kurabo Denim International Limited (note i)	Services fees income	**2,700**	2,700
	Purchase of raw materials and related service fee	**2,160**	2,554
	Royalty fee expense	**2,554**	2,348
Gain Success International Limited (note ii)	Operating lease payments	**–**	660
Star Alliance Holdings Limited (note ii)	Operating lease payments	**1,844**	1,418
Hing Tak Weaving Factory Limited (note ii)	Operating lease payments	**112**	112
Zhongshan Hing Shing Finishing and Dyeing Limited ("Hing Shing") (note iii)	Sub-contracting charges	**–**	22,815

Notes:

(i) Kurabo Denim International Limited is a joint venture of the Group.

(ii) The Controlling Shareholders have control or beneficial interests in these entities.

(iii) Hing Shing is a wholly-owned subsidiary of Kingshine Investments whereby Kingshine Investments became a subsidiary of the Company since July 2017. Before the acquisition, Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung held a total of 43% equity interest in Kingshine Investments, as such, had significant influence over Kingshine Investments and Hing Shing.

15. RELATED PARTY DISCLOSURES *(Continued)*

(b) Guarantees to a related party

As at 30 June 2018 and 31 December 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK$21,700,000 and HK$21,700,000, of which HK$18,875,000 and HK$20,468,000 had been utilised by the related party, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound. The financial guarantees were released subsequently upon the listing of the shares of the Company on SEHK on 16 July 2018.

(c) Assets pledged and guarantees by related parties

As at 30 June 2018 and 31 December 2017, certain secured bank borrowings of the Group are secured by assets held by the related companies which are controlled by the Controlling Shareholders. Certain secured bank borrowings of the Group are guaranteed by the Controlling Shareholders and the related companies which are controlled by the Controlling Shareholders. Those guarantees and securities from the Controlling Shareholders and the related companies have been released and replaced by the corporate guarantee given by the Company subsequently upon listing of the shares of the Company on SEHK on 16 July 2018.

(d) Compensation of directors and key management personnel

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Salaries and other allowances	**8,205**	5,273
Retirement benefit scheme contributions	**45**	45
Other benefits (note)	**768**	1,412
	9,018	6,730

Note:

Other benefits represent rentals for directors' quarters.

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

15. RELATED PARTY DISCLOSURES *(Continued)*

(e) Related party balances

The Group had the following outstanding balances with its related parties at the end of the reporting period:

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Amounts due from:		
Joint Venture		
Kurabo Denim International Limited (note i)	**–**	3,495
Directors		
Mr. TH Tung (note ii)	**–**	2,354
Mr. Stephen Tung (note ii)	**–**	1,138
Mr. Stanley Tung (note ii)	**–**	1,888
	–	5,380
Amounts due to:		
Joint Venture		
Kurabo Denim International Limited (note i)	**726**	–
Related Company		
Asiabest Capital Venture Limited (note iii)	**–**	739

Notes:

(i) The amounts due from/to a joint venture as at 30 June 2018 and 31 December 2017 are non-trade in nature, unsecured, interest free and repayable on demand. The amount due from a joint venture has been fully settled during the six months ended 30 June 2018, while the amount due to a joint venture has been fully settled subsequently before the listing of the shares of the Company on SEHK on 16 July 2018.

(ii) The amounts due from directors of the Company as at 31 December 2017 are non-trade in nature, unsecured, interest free and repayable on demand. The amounts have been fully settled during the six months ended 30 June 2018.

(iii) Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung have controlling interests in this entity. The amount due to the related company as at 31 December 2017 is non-trade in nature, unsecured, interest free and repayable on demand. The amount has been fully settled during the six months ended 30 June 2018.

16. CONTINGENT LIABILITIES

As at 30 June 2018 and 31 December 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK$21,700,000 and HK$21,700,000, of which HK$18,875,000 and HK$20,468,000 had been utilised by the related party, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound. The financial guarantees were released subsequently upon the listing of the shares of the Company on SEHK on 16 July 2018.

17. PLEDGED ASSETS

The Group's borrowings are secured by assets of the Group and the carrying amounts of which at the end of the reporting period are stated below:

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Property, plant and equipment	**2,673**	4,746
Structured bank deposits	**7,800**	7,800
Restricted bank deposits	**19,551**	19,435
	30,024	31,981

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the reporting period, pursuant to the resolutions of the Company's sole shareholder, Manford Investment, the Company allotted and issued a total of 479,500,000 new ordinary shares on 13 July 2018 by way of capitalisation of a sum of HK$4,795,000 reserve of the Company.

On 16 July 2018, upon the approval of SEHK, the Company has completed its initial public offering of 160,000,000 shares, which are listed on the Main Board of SEHK.

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Mr. Tung Wai Ting Stephen
Mr. Tung Cheuk Ming

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Mr. Cheung Che Kit Richard
Mr. Leung Wang Ching Clarence, *J.P.*

COMPANY SECRETARY
Mr. Cheung Ka Chun

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

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

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

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Mr. Cheung Ka Chun

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