PROSPEROUS INDUSTRIAL (HOLDINGS) LIMITED
其利工業集團有限公司

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE：1731

2018
ANNUAL REPORT

Contents

Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Biographies of Directors and Senior Management	6
Management Discussion and Analysis	11
Directors' Report	16
Corporate Governance Report	31
Environmental, Social and Governance Report	45
Independent Auditor's Report	61
Consolidated Statement of Profit or Loss and Other Comprehensive Income	67
Consolidated Statement of Financial Position	68
Consolidated Statement of Changes in Equity	69
Consolidated Statement of Cash Flows	70
Notes to Financial Statements	72
Four Years Financial Summary	134

Corporate Information

EXECUTIVE DIRECTORS
Mr. Yeung Shu Kin *(Chairman)*
Mr. Yeung Shu Kai
Mr. Duong Stephen Dien Sieu

NON-EXECUTIVE DIRECTORS
Mr. Lu Chin-Chu
Mr. Tsai Nai-Yung

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Chiu Che Chung Alan
Mr. Ko Siu Tak
Mr. Yip Kwok Cheung

AUDIT COMMITTEE
Mr. Ko Siu Tak *(Committee Chairman)*
Mr. Chiu Che Chung Alan
Mr. Yip Kwok Cheung

NOMINATION COMMITTEE
Mr. Yip Kwok Cheung *(Committee Chairman)*
Mr. Chiu Che Chung Alan
Mr. Yeung Shu Kin

REMUNERATION COMMITTEE
Mr. Chiu Che Chung Alan *(Committee Chairman)*
Mr. Ko Siu Tak
Mr. Yeung Shu Kin

COMPANY SECRETARY
Mr. Cheung Yuk Chuen

AUTHORISED REPRESENTATIVES
Mr. Cheung Yuk Chuen
Mr. Duong Stephen Dien Sieu

AUDITOR
Ernst & Young

COMPLIANCE ADVISOR
WAG Worldsec Corporate Finance Limited

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 1-2, 1/F, Join-In Hang Sing Centre
71-75 Container Port Road
Kwai Chung, New Territories
Hong Kong

COMPANY'S WEBSITE
www.pihl.hk

PRINCIPAL SHARE REGISTRAR
Conyers Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR
Tricor Investor Services Limited

PRINCIPAL BANKER
Shanghai Commercial Bank Limited

STOCK CODE
1731

Financial Highlights

	2018	2017
Key financial information		
Revenue (US$'000)	**221,849**	258,498
Gross profit (US$'000)	**49,475**	62,815
Profit for the year (US$'000)	**7,370**	21,082
Basic and diluted earnings per share (US cents)	**0.76**	2.51
Total assets (US$'000)	**190,072**	199,941
Total equity (US$'000)	**142,601**	108,325
Key financial ratios		
Gross profit margin (%)	**22.3**	24.3
Net profit margin (%)	**3.3**	8.2
Return on equity (%)(1)	**5.9**	18.5
Return on total assets (%)(2)	**3.8**	11.3

Notes:

1. Return on equity was calculated as profit for the year divided by the average balance of total equity and multiplied by 100%. Average balance was calculated by dividing the sum of opening balance and closing balance by two.

2. Return on total assets was calculated as profit for the year divided by the average balance of total assets and multiplied by 100%. Average balance was calculated by dividing the sum of opening balance and closing balance by two.

Chairman's Statement

Dear Valued Shareholders,

On behalf of the board of directors (the "**Board**") of Prosperous Industrial (Holdings) Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2018 (the "**Year Under Review**").

On 13 July 2018, the Company successfully listed its shares (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), marking an important milestone for the Group and enabling us to strengthen our capital base and boost the value of our brand reputation. With the successful Listing, our sustainability in the global bags and packs manufacturing industry are recognised, signifying the Group's leading position in the industry. With the support of our fellow directors and diligent managerial staff, we will extend our efforts to continue in maximizing efficiencies in our business and strengthening our leading position in the global bags and packs manufacturing market, generating the greatest benefits to our shareholders.

According to IHS Markit, the Global Manufacturing Purchasing Managers' Index ("**PMI**") fell to 50.7 in January 2019, the lowest since August 2016 at 29-month low, indicating dragged growth in industrial output and international trade flows, mainly due to the uncertainties in the global business environments. Being one of the leading Original Equipment Manufacturers ("**OEM**") and Original Design Manufacturers ("**ODM**") in bags and packs for recreational and sports brand owner customers around the world, the Group inevitably experienced from weakened sales momentum, as the shifting global economic outlook makes the customers more cautious about placing manufacturing orders.

Nevertheless, for the Group's sustainable business development, we constantly explore opportunities from the industry. Looking ahead, the recent sports fashion boom is expected to provide further impetus for the growth in sports industry. Sports fashion trend brings fashion brands and international sport brands together, launching crossover sports accessories which emphasize in high quality and design. Given the Group's expertise and experience in manufacturing sports and recreational bags and packs, as well as our long-term cooperation with the international sport brands owner customers, we believe we can grasp the opportunities from sports fashion trend to expand the Group's revenue sources and product range.

We started to establish the Group's production bases in the People's Republic of China (the "**PRC**") since 1997, and have been relying our major production on the PRC production bases over the decades. In the recent decade, the PRC's Gross Domestic Product ("**GDP**") recorded significant growth, signaling an increase in production cost. The continual increase in manufacturing cost and recent USA-China trade war (the "**Trade War**") imposed higher production pressure to manufacturers in the PRC, especially those involving foreign trades. However, the Group's management offers breadth of vision, the PRC's economic growth and impacts on the manufacturing industry was foreseen; hence, we expanded the Group's production bases to Vietnam since 2008, and further expanded to Cambodia recently. Our multi-regional manufacturing platform has allowed us to navigate through preferential import tariffs and international trading policy benefits. In addition, coupled with our overseas production management experience, the Group is striving for lower manufacturing costs and extra abundant skilled labour in long term, enhancing the Group's operation efficiencies and price competitiveness, which in turns attracting more customers and securing more sales orders.

Chairman's Statement

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our sincere appreciation to our fellow Directors, the Group's management teams and employees for your unwavering commitment and dedication. We would like to thank all parties who contributed to the Listing, and extend our heartfelt gratitude to our valued stakeholders, including our shareholders, customers, suppliers and government authorities for the continued support and trust in us. We are looking forward to bringing maximum value for our shareholders and sharing our greater success with all of you in the coming years.

Yeung Shu Kin
Chairman

Hong Kong
27 March 2019

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yeung Shu Kin ("**Mr. Herman Yeung**"), aged 70, was first appointed as a Director on 12 May 2004. He was appointed as the chairman of the Board on 15 December 2017 and was redesignated as an executive Director on 29 March 2018. Mr. Herman Yeung is also a director and supervisor of certain subsidiaries of the Group. Mr. Herman Yeung is mainly responsible for providing overall management and strategic development of the Group and has over 33 years of experience in the manufacturing industry.

Mr. Herman Yeung graduated from Moral Training English College in Hong Kong in November 1969. He joined the Group as a managing director between April 1985 and June 2004, mainly responsible for providing overall management and strategic development. In July 2004, he was redesignated as the chief operation officer for the Hong Kong region and mainly responsible for providing overall management and strategic development.

Mr. Herman Yeung is the brother of Mrs. Yeung Wor Foon Stella ("**Mrs. Yeung**"), a substantial shareholder of the Company, Mr. Yeung Shu Hung, the Chief Executive Officer, and Mr. Yeung Shu Kai, an executive Director, the brother-in-law of Mr. Yeung Ming Sum Richard ("**Mr. Yeung**"), a substantial shareholder of the Company, and the uncle of Mr. Yeung Wang Tony and Mr. Yeung Theodore Tat, both being the senior management of the Company.

Mr. Yeung Shu Kai ("**Mr. Philip Yeung**"), aged 59, was appointed as a Director on 1 August 2017 and was redesignated as an executive Director on 29 March 2018. Mr. Philip Yeung is also a director of certain subsidiaries of the Group. Mr. Philip Yeung is responsible for overseeing the quality control function of the factories in the PRC and has over 35 years of experience in the manufacturing industry.

He worked as an export assistant at Milagros (Far East) Limited between January 1983 and March 1985. Between April 1985 and June 2004, Mr. Philip Yeung was employed by a subsidiary of the Group as a senior director and was mainly responsible for setting quality assurance policies and procedures for products manufactured. From July 2004, he was employed by another subsidiary of the Group as a senior director for the quality assurance department and was mainly responsible for setting quality assurance policies and procedures for products manufactured.

Mr. Philip Yeung received a diploma in business administration and an advanced diploma in business administration from The Society of Business Practitioners in October 2000 and February 2002, respectively.

Mr. Philip Yeung is the brother of Mrs. Yeung, a substantial shareholder of the Company, Mr. Yeung Shu Kin, the Chairman and an executive Director, and Mr. Yeung Shu Hung, the Chief Executive Officer, the brother-in-law of Mr. Yeung, a substantial shareholder of the Company, and the uncle of Mr. Yeung Wang Tony and Mr. Yeung Theodore Tat, both being the senior management of the Company.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS *(continued)*

Mr. Duong Stephen Dien Sieu ("**Mr. Stephen Duong**"), aged 56, was appointed as a Director on 1 August 2017 and redesignated as an executive Director on 29 March 2018. Mr. Stephen Duong is responsible for overseeing the accounting function of the Group in Hong Kong and has over 31 years of experience in the accounting field.

Mr. Stephen Duong obtained a higher diploma in accountancy from Lingnan University in November 1985. He was employed by a subsidiary of the Group as accounting manager in July 2004 and was promoted to senior accounting manager in November 2012. He was mainly responsible for supervising the accounting team.

NON-EXECUTIVE DIRECTORS

Mr. LU Chin-Chu ("**Mr. Lu**"), aged 65, joined the Group in May 2004. He was appointed as a Director on 12 May 2004 and redesignated as a non-executive Director on 29 March 2018. Mr. Lu is also a director of certain subsidiaries of the Group. Mr. Lu is responsible for providing overall management and strategic development of the Group.

Mr. Lu has over 40 years of experience in the manufacturing industry, and holds a master's degree in management from National Chung Hsing University in Taiwan.

Mr. Lu is currently the chairman of Yue Yuen Industrial (Holdings) Limited, a company listed on the main board of the Stock Exchange (stock code: 551) ("**Yue Yuen**").

He is also a director of Pou Chen Corporation (stock code: 9904 TSE) and San Fang Chemical Industry Co., Ltd. ("**San Fang**") (stock code: 1307 TSE), both companies being listed on the Taiwan Stock Exchange ("**TSE**").

Mr. Lu was a non-executive director of Luen Thai Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 0311), from September 2007 to February 2017, and was also a director of Evermore Chemical Industry Co., Ltd. ("**Evermore**") from June 2006 to January 2018, a company listed on TSE (stock code: 1735 TSE).

Mr. Lu is involved in the board level activities of San Fang and Evermore and is not engaged in the day-to-day management of these companies.

Mr. TSAI Nai-Yung ("**Mr. Tsai**"), aged 62, joined the Group in August 2009. He was appointed as a Director on 10 August 2010 and was redesignated as a non-executive Director on 29 March 2018. Mr. Tsai is also a director of certain subsidiaries of the Group. Mr. Tsai is responsible for providing overall management and strategic development of the Group.

Mr. Tsai graduated from Lukang Junior High School*（彰化縣立鹿港國民中學）in Taiwan in July 1972 and has over 38 years of experience in the manufacturing industry. He is currently the vice president of Pou Chen Corporation, a company listed on Taiwan Stock Exchange (stock code: 9904 TSE).

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHIU Che Chung Alan ("**Mr. Chiu**"), aged 38, was appointed as the independent non-executive Director, the members of the audit committee and the nomination committee and the chairman of the remuneration committee of the Company on 19 June 2018.

Between November 2008 and October 2010. Mr. Chiu served as a financial planning manager at Centaline Financial Services Limited. Since November 2010, Mr. Chiu has been served as a senior investment manager in Springland (Hong Kong) Limited, an investment holding company, responsible for private fund operation and internal financial analysis.

Mr. Chiu graduated from York University in Canada with a bachelor of arts, majoring in Economics.

Mr. KO Siu Tak ("**Mr. Ko**"), aged 55, was appointed as the independent non-executive Director, member of the remuneration committee and the chairman of the audit committee of the Company on 19 June 2018. Mr. Ko obtained a master of arts from Macquarie University, Australia in October 1995. He is the sole proprietor of SQC CPA Limited and a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of Society of Chinese Accountants and Auditors.

Mr. Ko has over 30 years of experience in business and risk management advisory areas. In January 1986, Mr. Ko joined Dun & Bradstreet (H.K.) Ltd. (a company mainly engaged in risk management business) as an assistant collection consultant in receivable management operations division and in 1993, was promoted as divisional manager responsible for running domestic operations divisions of collectors. From 1996 to July 1997, Mr. Ko served as director of operations in Dun & Bradstreet (H.K.) Ltd. responsible for overseeing the receivable management division. From December 1997 to October 2000, Mr. Ko served as a credit manager of Sing Tao Limited where he was responsible for billing, leasing, Insurance, credit risk management and government project management.

Subsequent to Sing Tao Limited, since January 2006, Mr. Ko became a director of Sino Credit Management (HK) Limited which primarily engages in the provision of credit risk solutions, and Mr. Ko is primarily responsible for its overall management and day-to-day operations. Mr. Ko has also incorporated Sino QC Investment Consultant Limited in June 2006 for the provision of business consultancy services and SQC CPA Limited in January 2007 for the provision of accounting and auditing services. Recently, Mr. Ko incorporated GAMAHK Management Consulting Company Limited in March 2018, a company principally engages in business consultancy services. Mr. Ko is the sole shareholder and sole director for Sino QC Investment Consultant Limited, SQC CPA Limited and GAMAHK Management Consulting Company Limited, and responsible for the overall management and day-to-day operations of these companies.

Mr. Ko was a certified arbitrator of Zhanjiang Arbitration Commission（湛江仲裁委員會）/Zhanjiang Court of International Arbitration（湛江國際仲裁院）from June 2016 to December 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. YIP Kwok Cheung ("**Mr. Yip**"), aged 55, was appointed as the independent non-executive Director, member of the audit committee and the chairman of the nomination committee of the Company on 19 June 2018. Mr. Yip graduated from The Australian National University in Australia with a bachelor of economics in 1986.

Mr. Yip has over 23 years of management experience. From 1994 to 1997, he served as the managing director in Teschner Pty Limited, a restaurant and catering company, in Canberra, Australia where he was responsible for directing company activities, managing budgets and providing guidance for staff. From November 1996 to June 2007, Mr. Yip served as an executive director in Merdeka Financial Services Group Limited(萬德金融服務集團有限公司*) and Merdeka Resources Holdings Limited(萬德資源集團有限公司*), a company listed on GEM of the Stock Exchange (stock code: 8163) where he was responsible for the management of the group and directing overall business and development strategies. From October 2008 to August 2014, Mr. Yip served as the managing director of Hong Kong in Global Market Group (Asia) Limited (環球市場集團(亞洲)有限公司) ("**Global Market Group**") (an investment holding company) where he was mainly responsible for overseeing the operations of the company, handling business development projects. Since his resignation as a managing director, Mr. Yip remained in Global Market Group as a consultant up till September 2018. In August 2009, Mr. Yip was appointed as an independent non-executive director of Brockman Mining Limited(布萊克萬礦業有限公司*), company listed on the Main Board of the Stock Exchange and the Australian Securities Exchange (stock code: 159, ASX stock code: BCK) and in November 2015, he resigned his position in Brockman Mining Limited.

SENIOR MANAGEMENT

Mr. YEUNG Shu Hung ("**Mr. Edmond Yeung**"), aged 56, joined the Group in February 1997. He has been appointed as the Chief Executive Officer since 1 September 2017 and is mainly responsible for overseeing all aspects of the operations and strategic planning, formulation of corporate policies and new business initiatives and has over 31 years in the manufacturing industry.

Mr. Edmond Yeung obtained his bachelor's degree in science from The University of Alberta in Canada in July 1986. Mr. Edmond Yeung did not hold any directorship in any listed companies during the last three years. Mr. Edmond Yeung is the brother of Mrs. Yeung, a substantial shareholder of the Company, Mr. Herman Yeung, the Chairman and an executive Director and Mr. Philip Yeung, an executive Director, the brother-in-law of Mr. Yeung, a substantial shareholder of the Company and the uncle of Mr. Tony Yeung and Mr. Theodore Yeung, both being the senior management of the Company.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT *(continued)*

Mr. YEUNG Wang Tony ("**Mr. Tony Yeung**"), aged 45, joined the Group in January 2000 and is also a director of certain subsidiaries of the Group. He has been a project director of the Company since 1 September 2017 and is responsible for overseeing the retail business and projects of the Group.

Mr. Tony Yeung obtained his bachelor's degree in science from the Babson College in the United States in May 1995. Mr. Tony Yeung did not hold any directorship in any listed companies during the last three years. Mr. Tony Yeung is the son of Mr. Yeung and Mrs. Yeung, both are the substantial shareholders of the Company, the brother of Mr. Theodore Yeung, a senior management of the Company and the nephew of Mr. Herman Yeung, the Chairman and an executive Director, Mr. Philip Yeung, an executive Director and Mr. Edmond Yeung, the Chief Executive Officer.

Mr. YEUNG Theodore Tat ("**Mr. Theodore Yeung**"), aged 38, joined the Group as a quality controller in February 2004. He has been the chief operating officer of the Company since 1 September 2017 and is responsible for overseeing the operational activities of the Group.

Mr. Theodore Yeung graduated from the Bentley University (formerly known as Bentley College) in the United States with the degree of bachelor of science in accountancy in May 2003. Mr. Theodore Yeung did not hold any directorship in any listed companies during the last three years. Mr. Theodore Yeung is the son of Mr. Yeung and Mrs. Yeung, both are the substantial shareholders of the Company, the brother of Mr. Tony Yeung, a senior management of the Company and the nephew of Mr. Herman Yeung, the Chairman and an executive Director, Mr. Philip Yeung, the executive Director and Mr. Edmond Yeung, an Chief Executive Officer.

Mr. TANG Wing Yui ("**Mr. Tang**"), aged 35, is the financial controller of the Company and he joined the Group since April 2017. Mr. Tang holds a bachelor degree of business administration in accountancy from The Chinese University of Hong Kong since December 2007 and he is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2011. He has over 10 years of experience in auditing, accounting and finance. Prior to joining the Group, he worked in a reputable international accounting firm and a Hong Kong listed company. Mr. Tang was the financial controller of a subsidiary of the Company from 10 April 2017 to 31 August 2017 and designated to financial controller of the Company from 1 September 2017. Mr. Tang did not hold any directorship in any listed companies during the last three years.

* *For identification purpose only*

Management Discussion and Analysis

GENERAL OVERVIEW AND BUSINESS REVIEW

The Group is a leading manufacturer that designs, develops and manufactures recreational bags and packs, mainly backpacks, it also provides quality supply chain management services for renowned multinational sports and lifestyle brands. The Group is also engaged in sales of a proprietary brand of bags and packs, MAISON PROMAX, an entry-level luxury fashion brand with elements inspired by French design. The shares of the Company have been successfully listed on the Main Board of the Stock Exchange since 13 July 2018 (the "**Listing Date**"). The Listing not only benefited the Group with easier access to capital and fund raising, but also implied recognition of the Group's leading position and sustainability in the global bags and packs manufacturing industry, thus enhanced the Group's visibility and prestige.

In 2018, rising global trade tensions and tighter credit market conditions were resulted from a series of global economic challenges, such as the Trade War and uncertainties surrounding Brexit, the global economic growth was therefore slowed down. According to the statistics from World Trade Organisation, the growth in global merchandise trade volume tapered from 5.3% in 2017 to anticipated 3.9% for 2018. The Trade War imposed negative impacts on the merchandise trade, affecting business confidence and decisions, compromising the trade volume growth. With the risk of additional tariffs on goods exported to the USA from the PRC, the Group's customers have hence been cautious in placing orders with the Group's PRC production bases.

Despite the slowing global trade growth, the PRC's Gross Domestic Product grew 6.6% in 2018, according to the National Bureau of Statistics of China, signaling continuous increase in labour cost and other industrial production cost in the region. Such persistently high production cost, together with the impacts under the Trade War caused significant operating pressure to the manufacturers in the PRC. In view of this, the Group continued to leverage on its multi-regional manufacturing platform, preferential import tariffs and international trading benefits, by consolidating its production plants in the PRC and speeding up its expansion plan into Cambodia. Plant One of Cambodia production base commenced operation in February 2018 and housed 48 production lines by the end of 2018. Plant Two of Cambodia production base is currently being established and is expected to ramp up the production capacity for the peak season in 2020. Meanwhile, the Group ceased the operation of Dongkeng Plant in Dongguan, and relocated the workforce to Liaobu Plant, which is also located in Dongguan, in January 2019 as a move to consolidate the Group's production plants in the PRC. By gradually diversifying the Group's production among its multinational production facilities in the PRC, Vietnam and Cambodia, the Group is committed to provide more comprehensive solutions to its customers, and enhance its market position and profitability.

Management Discussion and Analysis

OUTLOOK AND PROSPECTS

The existing global trade tensions and tighten credit conditions are expected to continue; furthermore, the manufacturing cost in the PRC maintains at a persistently high level, the business environment is foreseen to remain challenging for the Group in 2019, especially for its production bases in the PRC. The Group's management has been forward-thinking and focusing on expanding the Group's production platform to Vietnam and Cambodia over the last decade, diversifying the operational risks.

The Group's manufacturing capacity and flexibility have been enhanced since its production bases in Vietnam and Cambodia commenced operation in 2008 and 2018 respectively. The Group aims to shift more production from the PRC to Vietnam and Cambodia gradually, while its production capacity expansion in Cambodia continues. The combination of different geographic regions not only provides the Group's customers with more comprehensive shipment options, but also has been benefiting the Group from the lower labour cost and various favourable export policies. The Group will closely monitor the macroeconomic and geopolitical situations, in order to adjust to market changes from time to time.

Sports fashion trend is foreseen to continue, luxury fashion brands are found cooperating with the famous international sports brands in launching cross-over activewear and accessories, contributing to the growing demand in high quality sports products. The Group is devoted to design and manufacture high quality recreational bags and packs, with the development capabilities and manufacturing knowhow accumulated over 20 years, the Group has been working closely with the renowned multinational sports and lifestyle brands for years. The customer trust built long-term provides the cornerstone for the Group to grasp the opportunities from the sports fashion trend to expand the products and customers range. The Group will maintain close communication with the customers to understand their needs, as well as to strive for more business opportunities.

Having adopted the effective risk management system, the Group has been maintaining an adequate level of cash flow, providing a strong financial foundation to the Group's business development. Upon the Listing, the Group's capital structure was further strengthened. The transparency and recognition as a listed company also give the Group more negotiating power with the banks and suppliers. In addition, the Group attaches great importance to its corporate governance, and will strengthen its internal control management continuously, including but not limited to enhancing operational efficiency, stringent cost control, and up-to-date product development, which would in turn enhance the Group's corporate profile and customer trust, thereby delivering a sustainable business growth and returns for the shareholders of the Company (the "**Shareholders**") in the long run.

Management Discussion and Analysis

FINANCIAL REVIEW

During the Year Under Review, over 98% of the Group's revenue was generated from sales of bags and packs manufactured for brand owner customers. Total revenue for the year was approximately US$221.8 million, representing a decrease of approximately US$36.7 million or 14.2% from approximately US$258.5 million as recorded in 2017. The decrease was mainly a result from the decrease in purchases orders from a number of major customers. Sales quantity decreased from approximately 24.6 million pieces for the year ended 31 December 2017 to approximately 20.8 million pieces for 2018, representing a decrease of approximately 3.8 million pieces or 15.4%. The average selling price per piece slightly improved while the sales mix of different product categories remained stable with outdoor & sporting bags and packs continued to contribute over 60% of the total revenue. The breakdown of the revenue, sales quantity and average selling price by product category are set out as below:

	2018				2017			
	Revenue		**Sales quantity**	**Average selling price**	Revenue		Sales quantity	Average selling price
	US$'000	***%***	***Pc'000***	***US$/pc***	*US$'000*	*%*	*Pc'000*	*US$/pc*
Product category								
Outdoor & sporting	**137,348**	**61.9**	**13,364**	**10.3**	155,327	60.1	15,389	10.1
Functional	**47,252**	**21.3**	**3,838**	**12.3**	60,963	23.6	5,004	12.2
Fashion & casual	**31,765**	**14.3**	**3,132**	**10.1**	34,514	13.3	3,520	9.8
Others	**5,484**	**2.5**	**490**	**11.2**	7,694	3.0	681	11.3
Total	**221,849**	**100**	**20,824**	**10.7**	258,498	100	24,594	10.5

The Group's cost of sales for the year ended 31 December 2018 amounted to approximately US$172.4 million, representing a decrease of approximately US$23.3 million or 11.9% from approximately US$195.7 million for 2017. The decrease was primarily attributable to the decrease in sales quantity for the year. Rising labour cost in the PRC and Vietnam continued to exert pressure on the Group's gross profit margin. In addition, the Group's Cambodia production base was still in its ramp-up period and has not achieved a desirable production efficiency comparing to other production plants of the Group, thus leading a decrease in gross profit margin from 24.3% to 22.3%.

The Group's administrative expenses increased by approximately US$2.8 million or 11.9% from approximately US$23.5 million for 2017 to approximately US$26.3 million for 2018. This was mainly attributable to the non-recurring listing expenses in connection with the Listing of approximately US$2.5 million and the operating cost of plant one of Cambodia production base incurred since it has been put into operation in February 2018.

Selling and distribution expenses for the year ended 31 December 2018 amounted to approximately US$15.4 million (2017: approximately US$14.9 million), slightly increased by approximately US$0.5 million or 3.4% as compared to 2017.

Management Discussion and Analysis

Profit attributable to Shareholders declined by approximately US$13.7 million or 64.9% to approximately US$7.4 million for the year ended 31 December 2018, compared with approximately US$21.1 million for 2017. Basic earnings per share for the year ended 31 December 2018 decreased by 1.75 US cents to 0.76 US cent as compared to 2.51 US cents for 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL EXPENDITURE

The Group has solid financial position and continued to maintain a strong and steady cash inflow from operating activities. During the year ended 31 December 2018, the Group's primary sources of funding included cash generated from operating activities and net proceeds from the Listing. As at 31 December 2018, the Group had cash and cash equivalents of approximately US$63.8 million and no external borrowings. The gearing ratio of the Group was zero (31 December 2017: Nil) as at 31 December 2018, calculated as total debt divided by total equity.

During the year ended 31 December 2018, the Group incurred capital expenditure of US$11 million, mainly attributable to the set up of Cambodia production base and acquisition of property, plant and equipment.

LISTING EXPENSES

Listing expenses represented fees to various professional parties in connection with the Listing. Listing expenses recognised in profit or loss for the year ended 31 December 2018 were approximately US$2.5 million (2017: approximately US$0.7 million).

EVENTS AFTER THE REPORTING PERIOD

Details of events after the end of reporting period are set out in the note 36 to financial statements.

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENT

Details of capital commitment of the Group as at 31 December 2018 are set out in the note 31(a) to financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the period from the Listing Date up to 31 December 2018.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 10,600 employees. Salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis. Remuneration is reviewed annually. Staff benefits include contribution to mandatory contribution fund, discretionary bonus and share options. During the year ended 31 December 2018, no share options were granted to employees of the Group.

The emolument of the Directors are determined by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2018, there were no material investments held by the Group (31 December 2017: Nil).

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2018, the Group did not have any charges on its assets (31 December 2017: Nil).

FOREIGN CURRENCY EXPOSURE

The Group's purchases and operating costs are mainly denominated in Renminbi and Vietnamese Dong while most of the Group's sales proceeds are received in US$. As such, the Group is exposed to foreign currency risk. Any appreciation of Renminbi or Vietnamese Dong against US$ may adversely affect the profitability. The Group currently does not have a foreign currency hedging policy. The Group will continue to monitor its foreign currency exposure closely and consider hedging significant foreign currency exposure should the need arises.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 February 2004 under the Companies Law of the Cayman Islands. The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 1 to financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the Group's financial position are set out in the financial statements on pages 67 to 133.

The Directors have resolved to recommend the payment of a final dividend of HK1.5 cents per share (the "**Final Dividend**") and a special dividend of HK3.5 cents per share (the "**Special Dividend**") (2017: Nil) to the Shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on 5 June 2019.

The proposed Final Dividend and Special Dividend are subject to the approval by the Shareholders at the forthcoming annual general meeting of the Company (the "**2019 AGM**"). It is expected that the Final Dividend and Special Dividend would be paid to the Shareholders on or around 20 June 2019.

ANNUAL GENERAL MEETING

The 2019 AGM is scheduled to be held on 27 May 2019. A notice convening the 2019 AGM will be issued and sent to the Shareholders on or around 24 April 2019.

CLOSURE OF REGISTER OF MEMBERS

To determine the eligibility of the Shareholders to attend the 2019 AGM, the Register of Members will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, both days inclusive, during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2019 AGM, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 21 May 2019.

For the purpose of ascertaining Shareholders' entitlement for the Final Dividend and the Special Dividend, the Register of Members will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019, both days inclusive. To qualify for the Final Dividend and the Special Dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 31 May 2019.

Directors' Report

BUSINESS REVIEW

The business review, a discussion of the principal risks and uncertainties facing the Group, analysis using key financial performance indicators and future development in the Group's business for the year ended 31 December 2018 are set out in the section headed "Management discussion and analysis" on pages 11 to 15 of this annual report.

The environmental policies and performance, compliance with relevant laws and regulations that have a significant impact on the Company and relationships with employees, customers and suppliers and others that have a significant impact on the Company, and on which the Company's success depends, are also discussed under section headed "Environmental, Social and Governance Report" on pages 45 to 60.

USE OF PROCEEDS FROM LISTING

On 13 July 2018, the issued shares of the Company were listed on the Main Board of the Stock Exchange. A total of 280,000,000 ordinary shares were issued to the public at a price of HK$0.89 per share for a gross proceed of approximately HK$249.2 million. The net proceeds raised from the listing were approximately HK$202.2 million after the deduction of related listing expenses. These proceeds were utilised in accordance with the proposed allocation set out in the prospectus of the Company dated 29 June 2018.

As at 31 December 2018, the amount of the net proceeds which remained unutilised amounted to approximately HK$176.7 million. The remaining unutilised net proceeds are expected to be utilised within 4 years up to 2022.

Set out below are details of the allocation of the net proceeds, the utilised and unutilised amount of the net proceeds as at 31 December 2018:

		Allocation of net proceeds HK$ million	Utilised amount up to 31 December 2018 HK$ million	Unutilised amount as at 31 December 2018 HK$ million
Further enhancement of manufacturing capacity and flexibility by expanding manufacturing platforms in Cambodia	67.0%	135.5	19.5	116.0
Enhancement of production efficiency and capabilities and enhancement of quality control by replacing and upgrading existing production machinery and acquisition of additional machinery, and setting up a research and development centre and additional testing laboratories	15.2%	30.8	3.9	26.9
Enhancing brand recognition for MAISON PROMAX and expansion of retail business	6.2%	12.5	1.7	10.8
Enhancing IT infrastructure	11.6%	23.4	0.4	23.0
	100%	202.2	25.5	176.7

Directors' Report

DONATIONS

The Group did not make any charitable donations during the Year Under Review.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 15 to financial statements.

SHARE CAPITAL

As of 31 December 2018, the total amount of the issued share capital of the Company was HK$11,200,000, divided into 1,120,000,000 shares of HK$0.01 per share. Details of movements in the Company's share capital during the year are set out in the note 27 to financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution amounted to US$80.4 million, of which US$7.2 million has been proposed as dividends for the year.

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to enhance the Shareholders' value. The following parameters/factors shall be considered by the Board for declaration of dividend:

- Circumstances under which the Shareholders may or may not expect dividend;
- Financial parameters/factors that shall be considered for declaration of dividend;
- Internal and external factors that shall be considered for declaration of dividend;
- Utilization of retained earnings; and
- Multiple classes of Shares.

The payment of dividend is also subject to any restrictions under the applicable laws, the Company's Memorandum and Articles of Associations.

The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year ended 31 December 2018 attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier: 5.5%

– five largest suppliers combined: 21.8%

Sales

– the largest customer: 21.2%

– five largest customers combined: 70.0%

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers.

DIRECTORS

During the year to the date of this report, the Directors comprised:

Executive Directors
Mr. Yeung Shu Kin *(Chairman, redesignated as an executive Director on 29 March 2018)*
Mr. Yeung Shu Kai *(Redesignated as an executive Director on 29 March 2018)*
Mr. Duong Stephen Dien Sieu *(Redesignated as an executive Director on 29 March 2018)*

Non-executive Directors
Mr. Lu Chin-Chu *(Redesignated as a non-executive Director on 29 March 2018)*
Mr. Tsai Nai-Yung *(Redesignated as a non-executive Director on 29 March 2018)*

Independent Non-executive Directors
Mr. Chiu Che Chung Alan *(Appointed on 19 June 2018)*
Mr. Ko Siu Tak *(Appointed on 19 June 2018)*
Mr. Yip Kwok Cheung *(Appointed on 19 June 2018)*

DIRECTORS' BIOGRAPHIES

Biographies of the Directors are set out on pages 6 to 10 of this annual report.

Directors' Report

CHANGES TO DIRECTORS' INFORMATION

Save as disclosed in this report, the Directors confirm that in relation to their profile, no information is required to be disclosed pursuant to Rules 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors entered into a service contract with the Company for a term of one year commencing from the Listing Date until terminated by not less than one month's notice in writing served by either party on the other.

Each of the independent non-executive Directors entered into a letter of appointment with the Company for a term of one year commencing from 19 June 2018 until terminated by not less than one month's notice in writing served by either party on the other.

No Director has service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 32 to financial statements, no transactions, arrangements and contracts in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the Year Under Review or at any time during the Year Under Review. No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year Under Review.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the Group's business were entered into or existed from the Listing Date to 31 December 2018.

MATERIAL CONTRACTS

Save as disclosed in the Prospectus and in the financial statements, no controlling shareholder or any of its subsidiaries has any material contract (including material contracts for the provision of services) with the Company or its subsidiaries during the Year Under Review.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the shares and underlying shares of associated corporation of the Company

Name of Director and Chief Executive	Name of associated corporation of the Company	Nature of interest	Number of ordinary shares held	Approximate % of total issued shares[1]
Mr. Yeung Shu Kin	Prosperous Holdings (Overseas) Limited ("**Prosperous BVI**")	Personal interest	12	12%
Mr. Yeung Shu Kai	Prosperous BVI	Personal interest	6	6%
Mr. Yeung Shu Hung	Prosperous BVI	Personal interest	6	6%

Note:

1. As at 31 December 2018, the total number of issued shares of Prosperous BVI was 100.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the registered of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as known to the Directors or chief executive of the Company, immediately following completion of the global offering and as at 31 December 2018, the following corporates and persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares of the Company and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions in Shares

Name	Capacity/Nature of interest	Number of shares	Percentage of shareholding in the Company
Prosperous BVI	Beneficial Owner	588,000,000	52.5%
Mr. Yeung Ming Sum Richard ("**Mr. Yeung**") [1]	Interest in a controlled corporation	588,000,000	52.5%
Mrs. Yeung Wor Foon Stella ("**Mrs. Yeung**") [1]	Interest in a controlled corporation	588,000,000	52.5%
Great Pacific Investments Limited ("**Great Pacific**") [2]	Beneficial Owner	252,000,000	22.5%
Pou Hing Industrial Co. Limited ("**Pou Hing**") [2]	Interest in a controlled corporation	252,000,000	22.5%
Yue Yuen Industrial (Holdings) Limited ("**Yue Yuen**") [2]	Interest in a controlled corporation	252,000,000	22.5%
Wealthplus Holdings Limited [3]	Interest in a controlled corporation	252,000,000	22.5%
Pou Chen Corporation [3]	Interest in a controlled corporation	252,000,000	22.5%

Notes:

(1) Prosperous BVI is owned as to 23% by Mr. Yeung, 23% by Mrs. Yeung, 12% by Mr. Yeung Shu Kin, 12% by Mr. Yeung Wang Tony, 12% by Mr. Yeung Theodore Tat, 6% by Mr. Yeung Shu Hung, 6% by Mr. Yeung Shu Kai and 6% by Mr. Yeung Chak Fung. Prosperous BVI is the beneficial owner of 588,000,000 shares of the Company upon the Listing and Mr. Yeung is the spouse of Mrs. Yeung. By virtue of the SFO, Mr. Yeung and Mrs. Yeung together are deemed to be interested in all of the shares of the Company held by Prosperous BVI.

(2) Great Pacific is a wholly-owned subsidiary of Yue Yuen and the beneficial owner of 252,000,000 shares of the Company. By virtue of the SFO, Yue Yuen is deemed to be interested in all of the shares of the Company held by Great Pacific as Great Pacific is a wholly-owned subsidiary of Pou Hing and Pou Hing is a wholly-owned subsidiary of Yue Yuen. Yue Yuen is a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange.

(3) Pou Chen Corporation is a shareholder of Yue Yuen and as at 13 July 2018, is interested as to 50.33% of Yue Yuen through its two wholly-owned subsidiaries, Wealthplus Holdings Limited (interested as to 47.22% of Yue Yuen as at 13 July 2018) and Win Fortune Investments Limited (interested as to 3.11% of Yue Yuen as at 13 July 2018). By virtue of the SFO and with reference to note (2), Pou Chen Corporation is deemed to be interested in the shares of the Company held by Great Pacific. Pou Chen Corporation is incorporated in Taiwan and is listed on the Taiwan Stock Exchange of the Taiwan Stock Exchange Corporation (stock code: 9904 TSE).

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any persons (other than the Directors and chief executive of the Company) who had any interests or short positions in the shares of the Company or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the period commencing from the Listing Date and up to 31 December 2018, none of the Directors was considered to have interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme (the "**Scheme**") on 19 June 2018 which is valid and effective for a period of 10 years from 13 July 2018. Accordingly, the Scheme will be expired on 12 July 2028.

The purpose of the Scheme is to give the eligible persons an opportunity to have a personal stake in the Company and help motivate eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executive, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include (a) an executive or an employee; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; (g) an associate of any of the foregoing persons; and (h) any person involved in the business affairs of the Company whom the Board determines to be appropriate to participate in the Scheme.

The maximum number of Shares which may be issued upon exercise of all share options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10 per cent. of the Shares in issue as at the date of listing of the Shares on the Main Board of the Stock Exchange (the "**Scheme Mandate Limit**") provided that the Company may at any time as the Board may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all share options to be granted under the Scheme and any other schemes of the Company shall not exceed 10 per cent. of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where the Scheme Mandate Limit is refreshed. Share options previously granted under the Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed.

Notwithstanding the foregoing, the maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares in issue of the Company from time to time.

The maximum number of Shares issued and to be issued upon exercise of the share options granted to any one eligible person (including exercised and outstanding share options) in any 12-month period shall not exceed 1 per cent. of the Shares in issue from time to time. Where any further grant of share options to such an eligible person would result in the Shares issued and to be issued upon exercise of all share options granted and to be granted to such eligible person (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent. of the Shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such eligible person and his close associates (or his associates if such eligible person is a connected person) abstaining from voting.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Scheme for the holding of an option before it can be exercised.

There is no minimum period for which a share option must be held before it can be exercised and there is no performance target which need to be achieved by the grantee before the share option can be exercised.

A consideration of HK$1 is payable on acceptance of the grant of an option. An option may be exercised in whole or in part by the grantee within the option period as determined and notified by the Board to the grantee.

The subscription price in respect of any particular share option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant share option but the subscription price shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a Share as stated in the Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

Since the Scheme was adopted, no Share Option has been granted.

Accordingly, the general scheme limit of the Company is 112,000,000 shares, representing 10% of the Company's issued share capital upon listing and as at the date of this report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the sections headed "SHARE OPTION SCHEME" and "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ASSOCIATED CORPORATION" above, at no time during the Year Under Review did there subsist any arrangements to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company is a party, being arrangements whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) when the Report of the Board of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622, Laws of Hong Kong).

The Company has taken out and maintained Directors' and officers' liability insurance, which provides appropriate cover for certain legal actions brought against its Directors and officers.

EQUITY-LINKED AGREEMENT

During the Year Under Review, other than the Share Option Scheme as set out in the paragraph headed "Share Option Scheme" of this Directors' Report, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the Year Under Review.

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

During the period commencing from the Listing Date and up to 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group during the Year Under Review, are disclosed in note 32 to financial statements. Certain related party transactions set out in note 32 to financial statements constitute de minimis continuing connected transactions and are fully exempt from the connected transaction requirements of Chapter 14A of the Listing Rules.

During the Year Under Review, the Group had the following non-exempt continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

*Lease of factory premises from Pou Sung Vietnam Co., Ltd ("**Pou Sung Vietnam**")*

Pou Sung Vietnam is a wholly-owned subsidiary of Yue Yuen, a substantial shareholder of the Company. Pou Sung Vietnam is therefore an associate of Yue Yuen and accordingly, a connected person of the Company.

Starite International Vietnam Limited ("**Starite Vietnam**"), a wholly owned subsidiary of the Company, as lessee, leased certain buildings which are primarily used as factories, office premises and warehouse for the Vietnam Production Base from Pou Sung Vietnam. The terms of the lease agreements ("**Vietnam Lease Agreements**") are summarised in the table below:

Date	Duration of the lease	Description of the property leased (the "Vietnam Leased Premises")	Amounts payable
1 May 2011 (as amended by the supplemental agreement dated 15 January 2018)	From 1 May 2011 to 11 January 2055	Factory in Section C of Bau Xeo Industrial Zone, Trang Bom District, Dong Nai Province, Vietnam with a total area of 35,852 square metres	(i) **Rental:** Total rent of VDN66,759,151,620 (equivalent to US$3,188,040) for the duration of the lease paid in two tranches before 30 June 2012, which has been fully paid. (ii) **Maintenance:** maintenance fees for public facilities of up to VND93,690,000 (equivalent to US$3,747.60) per month (iii) **Utilities and other charges:** Utilities and other ancillary charges will be charged based on actual consumption
1 October 2012 (as amended by the supplemental agreement dated 15 January 2018)	From 1 October 2012 to 11 January 2055	Factory in Section C of Bau Xeo Industrial Zone, Trang Bom District, Dong Nai Province, Vietnam with a total area of 10,628 square metres	(i) **Rental:** Total rent of VDN33,057,193,200 (equivalent to US$1,581,720) for the duration of the lease paid in two tranches before 31 December 2012, which has been fully paid. (ii) **Maintenance:** maintenance fees for public facilities of up to VND72,000,000 (equivalent to US$2,880) per month. (iii) **Utilities and other charges:** Utilities and other ancillary charges will be charged based on actual consumption
1 May 2014 (as amended by the supplemental agreement dated 15 January 2018)	From 1 May 2014 to 11 January 2055	Factory in Section C of Bau Xeo Industrial Zone, Trang Bom District, Dong Nai Province, Vietnam with a total area of 21,170 square metres	(i) **Rental:** Total rent of VDN55,648,380,094 (equivalent to US$2,637,639) for the duration of the lease which has been fully paid as of the date of the agreement. (ii) **Maintenance:** maintenance fees for public facilities of up to VND112,950,000 (equivalent to US$4,518) per month. (iii) **Utilities and other charges:** Utilities and other ancillary charges will be charged based on actual consumption

Date	Duration of the lease	Description of the property leased (the "Vietnam Leased Premises")	Amounts payable
1 July 2015 (as amended by the supplemental agreement dated 15 January 2018)	From 1 July 2015 to 11 January 2055	Factory in Section E of Bau Xeo Industrial Zone, Trang Bom District, Dong Nai Province, Vietnam with a total area of 3,600 square metres	(i) **Rental:** Total rent of VDN6,727,698,864 (equivalent to US$319,150.95) for the duration of the lease which has been fully paid as of the date of the agreement. (ii) **Maintenance:** maintenance fees for public facilities of up to VND30,000,000 (equivalent to US$1,200) per month. (iii) **Utilities and other charges:** Utilities and other ancillary charges will be charged based on actual consumption
1 July 2016	From 1 July 2016 to 11 January 2055	Factory in Section C of Bau Xeo Industrial Zone, Trang Bom District, Dong Nai Province, Vietnam with a total area of 9,216 square metres	(i) **Rental:** Total rent of VDN82,702,821,817 (equivalent to US$3,723,132.39) for the duration of the lease which has been fully paid as of the date of the agreement. (ii) **Maintenance:** maintenance fees for public facilities of US$768 per month. (iii) **Utilities and other charges:** Utilities and other ancillary charges will be charged based on actual consumption

Each of the Vietnam Lease Agreements has a term commencing from the date of signing to 11 January 2055 with rental to be paid at the beginning of the respective agreement for the entire term. Starite Vietnam would also pay maintenance fees for public facilities, utilities and other ancillary charges to Pou Sung Vietnam on a monthly basis under the Vietnam Lease Agreements. The rental payable and maintenance fees for public facilities under each of the Vietnam Lease Agreements was decided by reference to the market rate at the prevailing time. Utilities and other ancillary charges will be charged based on actual consumption. Starite Vietnam may terminate the Vietnam Lease Agreements by providing Pou Sung Vietnam nine months' prior written notice. However, Pou Sung Vietnam will not return any lease payment to Starite Vietnam if Starite Vietnam will terminate any of the Vietnam Lease Agreements before the end of the term but Starite Vietnam will not be liable to pay any of the maintenance, and utilities and other charges.

During the year ended 31 December 2018, the maintenance fee and utilities and other ancillary charges paid to Pou Sung Vietnam amounted to US$157,000 and US$478,000, respectively, which did not exceed the annual cap of US$160,000 and US$504,000, respectively, as set out in the Prospectus.

Shuttle Bus Services by Pou Sung Vietnam

On 25 June 2018, Starite Vietnam as customer and Pou Sung Vietnam as service provider entered into a bus service agreement (the "**Bus Service Agreement**"), pursuant to which Pou Sung Vietnam agreed to share the cost of shuttle bus services with Starite Vietnam for a term commencing from 25 June 2018 and ending on 31 December 2020. The Bus Service Agreement can be terminated during the term by either party serving one month's prior written notice to the other party. By mutual consent, the parties can renew the Bus Service Agreement. The shuttle bus service fees payable by Starite Vietnam to Pou Sung Vietnam were determined with reference to the number of workers at the Vietnam Production Base relative to the total number of workers at the Bau Xeo Industrial Zone and the cost of Pou Sung Vietnam in engaging such shuttle bus service.

During the year ended 31 December 2018, bus service fee paid to Pou Sung Vietnam amounted to US$391,000, which slightly exceeded the annual cap of US$380,000 as set out in the Prospectus. The Company has made an announcement on 27 March 2019 to re-comply with the reporting and announcement requirement pursuant to rule 14A.54 of the Listing Rules.

Property Management Agreement

On 25 June 2018, Starite Vietnam and Pou Sung Vietnam entered into a master property management agreement for a term commencing from 25 June 2018 to 31 December 2020 (the "**Property Management Agreement**"), pursuant to which, Pou Sung Vietnam as the service provider will provide property management services to Starite Vietnam as the customer for the Vietnam Leased Properties at a fixed rate per worker at the Vietnam Leased Premises per month.

During the year ended 31 December 2018, property management fees paid to Pou Sung Vietnam amounted to US$147,000, which did not exceed the annual cap of US$153,000 as set out in the Prospectus.

Annual review by the independent non-executive Directors and auditor on the continuing connected transaction

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions: (i) nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes the auditor to believe that the continuing connected transactions have exceeded the annual caps as set by the Company except for the Shuttle Bus Services transactions of US$391,000, which exceeded the cap by approximately US$11,000. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company confirms that it has complied with the disclosure requirements in accordance with chapter 14A of the Listing Rules.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within knowledge of the Directors, the Company has maintained a sufficient public float throughout the Year Under Review and as at the date of this report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 134. This summary does not form part of the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

AUDIT COMMITTEE

The Audit Committee has discussed with the management and the external auditor of the Group and reviewed the annual results of the Group for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, and discussed financial related matters.

AUDITOR

The consolidated financial statements for the years ended 31 December 2016, 2017 and 2018 were audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment upon conclusion of the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yeung Shu Kin
Chairman

Hong Kong
27 March 2019

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 to the Listing Rules from the Listing Date to 31 December 2018. The Board and the management of the Group consider that maintaining a well-established corporate governance practices and procedures is the key to success, and firmly believe that the principles of transparency, accountability and independence are essential for upholding the interests of the stakeholders and maximizing Shareholders' value.

The Board is committed to excellence in corporate governance. It is responsible for developing and reviewing the Company's policies and practices on corporate governance as well as compliance with legal and regulatory requirements.

MODEL CODE OF CONDUCT OF DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' transactions in securities of the Company. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the period commencing from the Listing Date to 31 December 2018.

BOARD OF DIRECTORS

Board Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making, which assumes the responsibility for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Board currently comprises the following Directors:

Executive Directors

Mr. Yeung Shu Kin *(Chairman)* (1)
Mr. Yeung Shu Kai (1)
Mr. Duong Stephen Dien Sieu

Non-executive Directors

Mr. Lu Chin-Chu
Mr. Tsai Nai-Yung

Independent Non-executive Directors

Mr. Chiu Che Chung Alan
Mr. Ko Siu Tak
Mr. Yip Kwok Cheung

Notes:

(1) Mr. Yeung Shu Kin, Mr. Yeung Shu Kai and Mr. Yeung Shu Hung, the chief executive officer of the Company, are brothers.

Details of background and qualifications of all Directors are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

During the period from the Listing Date up to the date of this report, the Chairman is Mr. Yeung Shu Kin, whilst the chief executive officer of the Company (the "**Chief Executive Officer**") is Mr. Yeung Shu Hung. The Company has complied with code provision A.2.1 of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, which stipulates that the chairman and chief executive should be separate and should not be performed by the same individual. The Chairman is responsible for providing overall management and strategic development of the Group. The Chief Executive Officer is responsible for overseeing all aspects of the operations and strategic planning, formulation of corporate policies and new business initiatives.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of diversity perspectives, including but not limited to gender, age, length of services, cultural and educational background, or professional experience, having due regard to the Company's own business model and specific needs from time to time.

The Company considers that the Board possesses a balance of skills and experience which are appropriate for the requirements of the business of the Group. A balanced composition of executive, non-executive and independent non-executive Directors also generates a strong independent element on the Board, which allows independent and objective decision making process for the best interest of the Group. The composition of the Board is reviewed by the Company from time to time to ensure the Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

Independent Non-executive Directors

During the period from the Listing Date to 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The role of independent non-executive Directors is to provide independent and unbiased opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. Independent non-executive Directors serve actively on the Board and the Committees of the Board to provide their independent, constructive and informed comments.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

All the non-executive/independent non-executive Directors are appointed for a specific term of one year, subject to renewal after the expiry of the then current term.

The Company's Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

Responsibilities of the Directors

The Board is primarily responsible for overseeing and managing the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group.

The Board is also responsible for determining the Company's corporate governance policies which include:

(a) To develop and review the Company's policies and practices on corporate governance;

(b) To review and monitor the training and continuous professional development of Directors and senior management;

(c) To review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;

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

(e) To review the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules and its disclosure requirements in the Corporate Governance Report.

During the period from the Listing Date to 31 December 2018, the Board had performed the above-mentioned corporate governance functions by reviewing the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management, who fulfill their duties within their scope of authority and responsibility. Divisional heads are responsible for different aspects of the businesses. Major functions delegated to management include preparation of annual and interim results; execution of business strategies and initiatives adopted by the Board; implementation of adequate risk management and internal control systems; and compliance with the relevant statutory requirements. The functions and power that are so delegated are reviewed periodically by the Company to ensure that they remain appropriate.

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the accounting department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the Year Under Review, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with. The financial statements were prepared on a going concern basis. The reporting responsibilities of the Company's external auditor, Ernst & Young, are set out in the Independent Auditor's Report on pages 61 to 66.

Continuous Professional Development of Directors

Every newly appointed Director will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director pursuant to the Companies Ordinance, the Listing Rules and the SFO. In addition, this information package includes material which briefly describes the operations and business of the Company. Directors will be continuously updated on major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments to the Directors at regular Board meetings.

The Directors are committed to complying with code provision A.6.5 of the CG Code and all Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the year ended 31 December 2018 to the Company.

The individual training record of each Director received for the Year Under Review is summarised as follows:

Directors	Type of continuous professional development programmes
Mr. Yeung Shu Kin	B
Mr. Yeung Shu Kai	B
Mr. Duong Stephen Dien Sieu	A/B
Mr. Lu Chin-Chu	A
Mr. Tsai Nai-Yung	B
Mr. Chiu Che Chung Alan	A
Mr. Ko Siu Tak	A/B
Mr. Yip Kwok Cheung	B

Notes:

A: attending seminars/forums/workshops/conferences relevant to the business or directors' duties.

B: reading regulatory updates.

Board Meetings

Pursuant to code provisions of the CG Code, meetings of the Board should be held at least four times a year at approximately quarterly intervals and notice of at least 14 days should be given of a regular board meeting. Agendas and accompanying papers shall be sent not less than 3 days before the date of Board meeting to ensure that the Directors are given sufficient time to review the documents.

The Board is responsible for the approval and monitoring of the Company's overall strategies and policies, approval of business plans, evaluating the performance of the Group and oversight of management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board passed several written resolutions and held 4 meetings during the period from the Listing Date and up to 31 December 2018. From 1 January 2019 to the date of this annual report, the Board also held 2 meetings. The principal businesses transacted include:

- Assessing business performance and planning future business directions;
- Approving the interim report for the six months ended 30 June 2018;
- Approving the financial results and reports for the year ended 31 December 2018;
- Adopting the policies.

Notice of the Board meeting, agenda and Board papers were sent to the Directors in a timely manner before the meeting. All members of the Board were present at the Board meeting.

Appropriate insurance cover has been arranged by the Company in respect of relevant actions against its Directors.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Audit Committee consists of three independent non-executive Directors namely Mr. Ko Siu Tak, Mr. Chiu Che Chung Alan and Mr. Yip Kwok Cheung. The chairman of the Audit Committee, Mr. Ko Siu Tak, possesses appropriate professional qualifications in finance and accounting and meets the requirements of rule 3.21 of the Listing Rules.

The duties of the Audit Committee shall be:

(a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

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

(c) to review the Company's financial controls, risk management and internal control systems;

(d) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems.

The Audit Committee passed several written resolutions and held 2 meetings during the period from the Listing Date and up to 31 December 2018. From 1 January 2019 and to the date of this annual report, one Audit Committee meeting was held and all the members of the Audit Committee were present at the meeting. The Audit Committee also met the external auditor once from the Listing Date to date of this report without the presence of the executive Directors. There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

The major works performed are as follows:

- Reviewing and recommending for the Board's approval the interim report for the six months ended 30 June 2018;
- Reviewing and recommending for the Board's approval the financial results and reports for the year ended 31 December 2018;
- Recommending to the Board of the re-appointment of external auditor for the year ending 31 December 2019;
- Reviewing the adequacy of resources, qualifications, experience of staff in the Group's accounting and financial reporting function as well as their training programmes and budget;
- Reviewing the changes in accounting policies and practices;
- Assessing corporate governance compliance;

- Recommending for the Board's approval the adoption of the revised terms of reference of the Audit Committee;

- Reviewing certain aspects of the internal control systems of the Group;

- Recommending for the Board's approval the adoption of risk management policy; and

- Assisting the Board in meeting its responsibilities for evaluating, establishing and maintaining effective risk management and internal control systems of the Group. The Group's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Remuneration Committee

The Remuneration Committee consists of one executive Director, being Mr. Yeung Shu Kin, and two independent non-executive Directors, being Mr. Chiu Che Chung Alan (Committee Chairman) and Mr. Ko Siu Tak.

The duties of the Remuneration Committee shall be:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for development such policy;

(b) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(c) to determine the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to determine the remuneration of non-executive Directors. The remuneration packages are determined with reference to the time commitment and responsibilities of each individual, the Company's performance and the prevailing market conditions.

There had not been any Remuneration Committee meeting held during the period from the Listing Date up to 31 December 2018. From 1 January 2019 and up to the date of this annual report, the Remuneration Committee passed several written resolutions and held 1 meeting and all the members of the Remuneration Committee were present at the meeting and the major works performed are as follows:

- Reviewing and determining the 2018 performance/discretionary bonus to the senior management;

- Reviewing and determining the increment of remuneration packages for the executive Directors, senior management and other employees of the Group for the year commencing from 1 January 2019 with reference to the time and efforts involved in discharging their duties and the prevailing market conditions; and

- Recommending for the Board's approval the adoption of the revised terms of reference of the Remuneration Committee.

The remuneration of the Directors and the members of senior management for the year by band is set out below:

	Number of Individuals
Nil – HK$1,500,000	7
HK$1,500,001 – HK$3,000,000	5

Further particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 10 and 11 respectively to the financial statements.

Nomination Committee

The Nomination Committee consists of one executive Director, being Mr. Yeung Shu Kin, and two independent non-executive Directors, being Mr. Yip Kwok Cheung (Committee Chairman) and Mr. Chiu Che Chung Alan.

The duties of the Nomination Committee shall be:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis (at least annually) and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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

(c) to assess the independence of independent non-executive Directors;

(d) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives as stated in the above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

There had not been any Nomination Committee meeting held, but passed several written resolutions, during the period from the Listing Date up to 31 December 2018. From 1 January 2019 and to the date of this annual report, one Nomination Committee meeting was held and all the members of the Nomination Committee were present at the meeting and the major works performed are as follows:

- Reviewing the structure, size and composition of the Board;
- Assessing the independence of the independent non-executive Directors of the Company;
- Recommending for the Board's approval the adoption of the revised terms of reference of the Nomination Committee; and
- Reviewing and making recommendations to the Board on the re-appointment of Directors who are subject to retirement from office by rotation at the forthcoming annual general meeting of the Company.

DIRECTOR APPOINTMENT POLICY

Director Appointment Policy of the Group (the "**Director Appointment Policy**") is in place and was adopted in writing during the Year Under Review. The Director Appointment Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each of the Directors at the Board meetings, and meetings of the committees from the Listing Date to 31 December 2018 is set out as follows:

Name of Directors	**Board Meeting**	**Audit Committee Meeting**
Executive Directors		
Mr. Yeung Shu Kin	4/4	N/A
Mr. Yeung Shu Kai	4/4	N/A
Mr. Duong Stephen Dien Sieu	4/4	N/A
Non-executive Directors		
Mr. Lu Chin-Chu	4/4	N/A
Mr. Tsai Nai-Yung	4/4	N/A
Independent Non-executive Directors		
Mr. Chiu Che Chung Alan	4/4	2/2
Mr. Ko Siu Tak	4/4	2/2
Mr. Yip Kwok Cheung	4/4	2/2

In addition, the Chairman held meetings with the Non-executive Directors and the Independent Non-executive Directors, without the presence of Executive Directors, in November 2018 and December 2018 respectively.

Risk management and Internal Control Systems

The Board acknowledges its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems to safeguard the interests of shareholders and the Group's assets. The Board also acknowledges its responsibility for overseeing the Group's risk management, financing reporting, and internal control systems on an ongoing basis and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

To this end, appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Besides, management continues to allocate resources for the risk management and internal control systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board, through the Audit Committee, has delegated the internal audit function to an independent external assurance provider, who has conducted a review on the adequacy and effectiveness of the Group's risk management and internal control systems for the year 2018. The Board considers that the Group's risk management and internal control systems are effective and adequate.

The Board, through the Audit Committee, leads and provides direction to management by laying down strategies and overseeing their implementation by management, monitors the Group's operational and financial performance, and ensures that sound risk management and internal control systems are in place.

The Board reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, on the Group's accounting, financial reporting and internal audit functions.

The Board, through delegation of its authority to an environmental, social and governance working group, is also responsible for reviewing the Company's corporate social responsibility strategies, principles and policies; setting guidelines, direction and overseeing practices and procedures; and monitoring progress on the Company's corporate social responsibility and related activities.

Corporate Governance Report

The following highlights the key risk management measures under the Group's "Three Lines of Defence" model and enhancements made by the Group for the year 2018.

1st line of defence – Risk management

- Management conducted an annual Internal Control Self-Assessment for the year 2018. Management confirmed that appropriate internal control policies and procedures have been established and complied with.

- Various policies, procedures and guidelines are in place with defined authority for effective segregation of duties, controls and risk management, and they are subject to regular review.

- The Group's anti-bribery and anti-corruption guidelines are in place to set out minimum standards in recognizing circumstances which may lead to or give the appearance of involving corruption or unethical business conduct, to help avoid conduct which is clearly prohibited, and to encourage everyone in the Group to seek appropriate guidance promptly when needed.

- The Group's whistleblowing policy is in place to facilitate internal reporting of any malpractice and unethical conduct within the Group without fear of reprisal and victimization.

2nd line of defence – Risk oversight

- The Group's Enterprise Risk Management ("**ERM**") Policy is developed to outline the principles, governance, roles and responsibilities, and approach within a coherent risk management framework that addresses and prioritizes risks that are material and relevant to the Group's corporate goals.

- The Group's ERM Framework aims to help management assess and manage risks arising from and associated with new business activities and environments, including emerging risks. An integrated risk assessment approach was adopted to address risks across various subsidiaries of the Group, to assess those risks on an integrated group-wide basis.

3rd line of defence – Independent assurance

- The external assurance provider takes up the internal audit function, who is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control systems and reporting the review results regularly to the Board through the Audit Committee.

For internal audit, a risk-based approach is adopted. The three years' work plan of external assurance provider for internal audit, is subject to review annually, covers major activities and processes of the Group's operations, businesses and service units. The results of these audit activities are communicated to the Audit Committee and key members of senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and senior management of the Group (as the case may be) periodically. The external assurance provider for internal audit provides independent assurance to the Board, the Audit Committee and the senior management of the Group on the adequacy and effectiveness of internal controls for the Group.

The Group's ERM Policy is established by the Board as an effective and adequate approach to be applied across the Group to manage the risks associated with its business and operations. This policy is designed to enhance enterprise risk management of the Group through a holistic and integrated framework so that all material risks faced by the Group are identified and appropriately managed to:

i. promote consistent risk identification, measurement, reporting and mitigation;

ii. set a common risk language to avoid any conflicting terminology or confusion in risk reporting;

iii. develop and communicate policies on enterprise risk management and controls aligned with the business strategy; and

iv. enhance reporting to provide transparency of risks across the Group.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the management of the Group at least annually to assess whether the risk management and internal control systems are functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future. The Company regulates the handling and dissemination of inside information as set out in the Code of Conduct to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

GOING CONCERN

The Directors, having made appropriate enquiries, are of the view that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate for the Group to adopt the going concern basis in preparing the financial statements.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company, Ernst & Young, in respect of audit and non-audit services provided to the Group during the year ended 31 December 2018 was analysed below:

Services Category	Fees paid/ payable *HK$'000*
Audit Services	
– Annual Audit	2,650
– Listing	1,400
Non-audit services	
– Including agree-upon procedures on interim financial information and other non-assurance services	580

COMPANY SECRETARY

Mr. Cheung Yuk Chuen ("**Mr. Cheung**") has been appointed as the Company Secretary since 29 March 2018. Mr. Cheung has taken no less than 15 hours of relevant professional training for the year ended 31 December 2018 in compliance with rule 3.29 of the Listing Rules. Mr. Cheung is delegated by an external service provider and the primary corporate contact person in the Company is Mr. Duong Stephen Dien Sieu, the executive Director.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

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

Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Extraordinary general meetings may be convened by Directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Company Secretary by mail to Unit 1-2, 1/F, Join-In Hang Sing Centre, 71-75 Container Port Road, Kwai Chung, New Territories, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders who propose new resolutions at the general meetings can also follow the above procedures.

Putting Forward Enquiries to the Board

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

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Unit 1-2, 1/F, Join-In Hang Sing Centre, 71-75 Container Port Road, Kwai Chung, New Territories, Hong Kong (marked for the attention of the Board of Directors or the Company Secretary)

Email: pihl@pihl.hk

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Pursuant to written resolutions of the then shareholders passed on 19 June 2018, the existing Memorandum and Articles of Association of the Company were adopted.

During the period from the Listing Date up to 31 December 2018, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the website of the Company at www.pihl.hk and the website of the Stock Exchange at www.hkex.com.hk.

Environmental, Social and Governance Report

1. INTRODUCTION

1.1 Scope of this Report

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The aim of the report is to fairly display the efforts made by Company and its subsidiaries (the "**Group**") on its corporate social responsibility in the marketplace, workplace, community and environment and cover the Group's operations in the production and sale of bags for the year ended 31 December 2018.

1.2 ESG Working Group

To demonstrate our commitment to transparency and accountability, the Group verified on the efficacy of ESG risk management and internal control systems and has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Board of Directors.

1.3 Corporate Social Responsibility Vision, Policy and Strategy

The Group views corporate social responsibility ("**CSR**") as a business philosophy that creates sustainable value for shareholders by embracing opportunities and managing risks deriving from economic, environmental and social developments. The Group also believes that the ability to identify, assess and manage ESG considerations in our business activities is vital to creating intrinsic value to the Group in the long run. Hence, ESG considerations are an integral part of our CSR objectives and the Group has adopted CSR Policy in respect of the environmental, social and governance dimensions that aims to integrate CSR seamlessly into the Group's business strategies and management approach.

The Group's CSR Policy describes our long-term approach to specific issues in the four cornerstones: Marketplace, Workplace, Community and Environment, which is instrumental in enabling our business to operate in a sustainable manner. Within each of the cornerstones, core principles and pragmatic objectives provide guidance on practicing CSR in our daily operations.

1.4 Sustainability

The Group excels in fabrication of designs and crafting of bags and packs. The Group is also known to cater significant support in terms of quality supply chain management services to the renowned global brands. In between the immense industry threats, the competitiveness of the Group is retained, among others, through extensive and extensible manufacturing capacity with high product and services quality. This is further brought about through the multi-regional manufacturing platform in the PRC, Vietnam and Cambodia. Such platforms comprise of six manufacturing facilities that account for a factory gross floor area of approximately 253,000 m^2, 253 production lines producing a volume of approximately 20,000,000 units in 2018. The Group has gained sufficient knowledge and maturity in the fields of operating manufacturing facilities overseas, since the inception of the manufacturing plant in Vietnam, in the year 2008. This was followed by another establishment in Cambodia that started its production in February 2018. The on-going expansion of the Group's production base in various regions are intended to achieve enhanced production capacity and diversification of risks. Moreover, to address the challenge of sustainability, the Group has instigated production control system to maintain a close check on the vital stages that are involved in the course of manufacturing. The outcome was enhancement of working performance and the service experiences.

1.5 Stakeholders Engagement

In order to create sustainable growth and long-term value for its stakeholders, who comprise the Group's employees, investors, customers and the wider community, the Group endeavors to address their expectations and concerns through regular communication. The Group continues to involve stakeholders on an ongoing basis to understand their views and collect their feedback to align business practices. Our communication channels with our stakeholders including company website, annual general meeting and staff meetings.

2. PROTECTING THE ENVIRONMENT

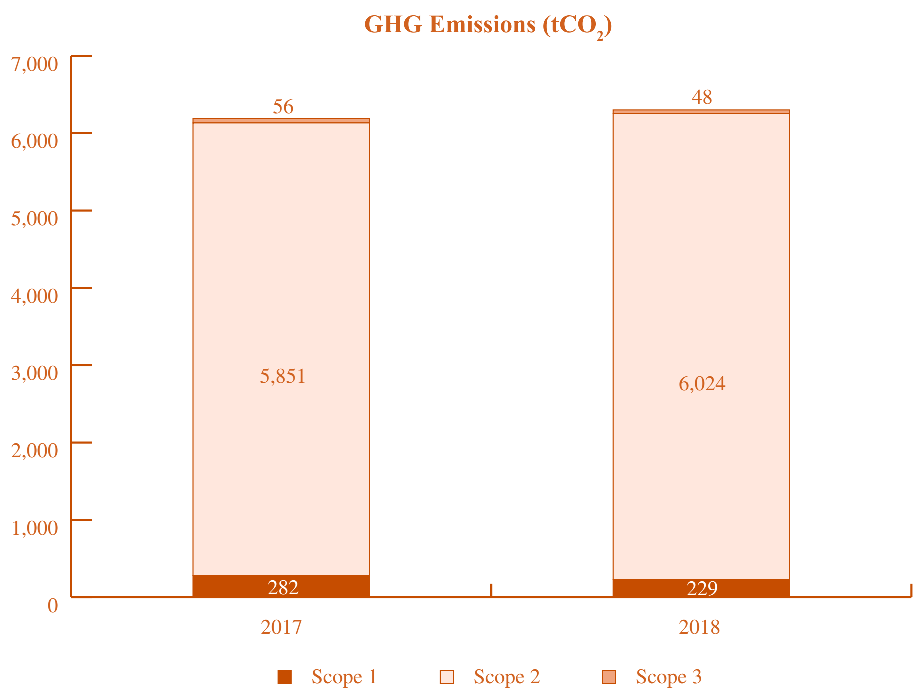
The Group is eminently devoted towards promoting a sustainable working and living environment through continuous emissions reduction and effective use of resources. This is achieved by clinging to the laws and regulations adopted by the local authorities that primarily aims to diminish the emissions of greenhouse gases and promotion of environmental awareness and optimising resource utilisation throughout the Group.

Our manufacturing operations are subject to extensive environmental regulations. In order to ensure compliance is achieved, separate set of individuals have been set up by the Group, who are given the duty of handling issues related to environmental compliance in the jurisdictions in which we operate. The Group believes to have sufficient protection measures that abide by all applicable current and national or local laws and regulations in the PRC, Vietnam and Cambodia.

2.1 GHG Emissions and Energy Consumption

The Group persistently strives to operate its business in an environmental-friendly manner, making every effort to achieve environmental conservation. The Group strictly observe the laws and regulations in relation to environmental protection, including the Environmental Protection Law of the PRC, the Appraising of Environment Impacts Law of the PRC, the Management Regulations of Environmental Protection of Construction Project, the Interim Regulations on Environmental Protection Acceptance of Construction Projects, Environment Protection Law in Vietnam and the Law on Environmental Protection and Natural Resource Management in Cambodia, with a view to controlling emissions and conserving resources.

The primary source of Green House Gas ("**GHG**") emissions from the Group's operating activities is Carbon Dioxide (CO_2). An overview of the carbon footprint of the Group is summarised as follows:



	2017 tCO_2	2018 tCO_2	Variance Increase/ (decrease)
GHG emissions			
Scope 1: Direct emissions[2]			
– Carbon dioxide	282	229	(19%)
Scope 2: Indirect emissions[3]			
– Carbon dioxide	5,851	6,024	3%
Total GHG emissions from energy consumed (Scope 1+2)			
– Carbon dioxide	6,133	6,253	2%
Scope 3: Other Indirect emissions[4]			
– Carbon dioxide	56	48	(14%)
Total GHG emissions (Scope 1+2+3)	6,189	6,301	2%
GHG emissions intensity[5] (Scope 1+2+3)			
Per piece produced ($kgCo_2$)[5.1]	0.25	0.32	28%
Per employee (tCO_2)[5.2]	0.66	0.59	(11%)

Notes:

1. The above calculation is based on the reference and tools provided by Environmental Protection Department. https://www.carbon-footprint.hk/node/52

2. Scope 1 refers to direct GHG emissions such as fuel consumption.

3. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity.

4. Scope 3 refers to other indirect GHG emissions from business travel.

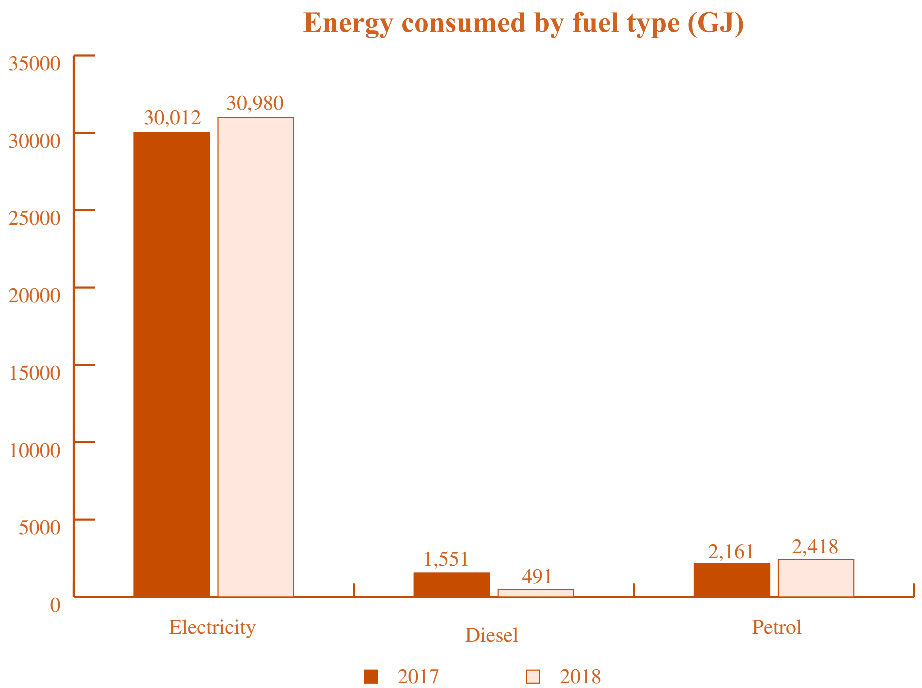
5. GHG emissions intensity is calculated by dividing the total GHG emissions by (1) the production volume; and (2) the number of employees.

5.1. The production volume for 2017 and 2018 is approximately 25 million pieces and 20 million pieces respectively.

5.2. The number of employees for 2017 and 2018 is approximately 9,400 and 10,600 respectively.

Energy consumption accounts for approximately 99% (2017: 99%) of the Group's total GHG emissions, which is mainly derived from the Group's use of electricity in operating machineries and other equipment during the manufacturing process and consumption of liquid fossil fuels for motor vehicles.

The Group's energy consumption by fuel types are analysed below:



	2017 GJ	2018 GJ	Variance Increase/ (decrease)
Energy Consumption			
Electricity	30,012	30,980	3%
Diesel	1,551	491	(68%)
Petrol	2,161	2,418	12%
Total energy consumption	**33,724**	**33,889**	**0%**
Energy consumption intensity[1]			
Per piece produced[1] (MJ)	1.35	1.69	25%
Per employee[2]	3.59	3.20	(11%)

Note:

Energy consumption intensity is calculated by dividing the total energy consumption by (1) the production volume; and (2) the number of employees.

Electricity is the dominant energy source of the Group's production process. The Group's electricity consumption increased slightly by 3% from 30,012 GJ in 2017 to 30,980 GJ in 2018, reflecting an expansion of the Group through the increase of labour and production lines, as a result the corresponding GHG emissions also increased by 3% as compared with last year, contributing to an overall increase of total GHG emissions by 2%.

Considering the usage of resources, the Group is eminently devoted towards using natural resources efficiently while emphasising on their conservation. Actions in this regard include monitoring of electricity usage at workplace and encouraging employees to share rides, where possible. Moreover, potentiality of several other alternative ways such as improvements of air-conditioning, electrical equipment, installment of sensors and timers that aim to help the Group accomplish its environmental agenda were assessed and implemented where feasible. As a result of the Group's effort in energy conservation, there is no significant change in the Group's total energy consumption between 2017 and 2018 despite the increase in labour and production lines. The Group's energy consumption intensity per employee decreased by 11% from 3.59 GJ in 2017 to 3.20 GJ in 2018, leading to an overall decrease in total GHG emissions intensity per employee of 11%, which indicate that the Group is using energy in an efficient manner.

The Group's energy consumption intensity and GHG emissions intensity per production volume increased by 25% and 24% respectively compared with last year, which was mainly as a result of the set-up, trainings and trial runs in relation to our new Cambodia factory plant prior to it reaching optimal production efficiency.

Relying on the observed results to date, the Group is acting to craft out stable plans to accomplish environmental conservation. Primarily, the spotlight is given to energy consumption and waste as they are regarded as the most crucial segments that requires dedicated amount of attention.

2.2 Waste Management

The Group has introduced a lean manufacturing model focusing on productivity improvement at our Vietnam manufacturing plant as a pilot testing point before overall implementation in all of our production bases. This streamline production process enables us to discover and resolve issues relating to production at the early stage, thereby allowing us to achieve "Do It Right The First Time", lowering defect rate and avoiding unnecessary waste during the manufacturing processes.

The Group's operating activities generate both hazardous and non-hazardous waste. In general, the Group's hazardous wastes mainly comprise used motor oil and soiled rags produced by sewing machines and used fluorescent lamps. These hazardous solid wastes are collected by qualified companies and are handled in compliance with the stipulated laws and regulations of the respective countries. Non-hazardous wastes produced by the Group mainly represent general industrial waste and domestic garbage. The Group has engaged third-party waste management companies to collect and dispose of its non-hazardous wastes in an appropriate manner.

Hazardous and non-hazardous wastes produced by the Group are analyzed below:

	2017 tonne	2018 tonne	Variance Increase/ (decrease)
Total hazardous Waste	32	57	78%
Hazardous waste intensity			
Per piece produced	0	0	0%
Per employee (kg)	3.40	5.38	58%

Note:

Hazardous waste intensity is calculated by dividing the total hazardous waste by (1) the production volume; and (2) the number of employees.

The Group produced 57 tonnes of hazardous waste in comparison to 32 tonnes in 2017, mainly as a result of the Group's expansion in the number of production lines.

	2017 tonne	2018 tonne	Variance Increase/ (decrease)
Non-Hazardous Waste			
Factory and Office Daily Waste	2,334	2,206	(5%)
Non-hazardous waste intensity			
Per piece produced (kg)[1]	0.10	0.11	10%
Per employee[2]	0.25	0.21	(16%)

Note:

Non-hazardous waste intensity is calculated by dividing the total non-hazardous waste by (1) the production volume; and (2) the number of employees.

Non-hazardous wastes produced by the Group slightly decreased by 5% from 2,334 tonnes in 2017 to 2,206 tonnes in 2018 which was mainly benefited from the lean manufacturing model of our Vietnam factory.

2.3 Use of resources

The Group encourages our employees to use their best endeavours to reduce waste and emissions, with a view to contributing to the community and the environment. Policies relating to reduction of waste and emissions, and efficient use of resources include:

- encourage employees to use their best endeavours to take public transport during business trip;
- encourage employees to reduce unnecessary overseas business trip, thus reducing indirect carbon emissions;
- consider energy efficient products when procuring and replacing equipment, e.g. replacing incandescent lighting with LED lighting;
- turn off electrical appliances or switch them to standby mode when they are not in use, thus reducing the amount of electricity used;
- use duplex printing, recycle papers and use electronic means to reduce paper usage;
- reuse office stationaries (e.g. envelopes and folders);
- turn off all unnecessary lighting, air conditioning and electrical appliances before leaving the office; and
- encourage employees to recycle paper, plastic bottle and tin can.

Water management

The Group recognises that water management is one of the material aspects of preserving the natural environment, in view of this, the Group collects sewage water through wastewater treatment plants in our factories to ensure that the discharge water quality meet the emission standards of industrial wastewater in respective countries in which they are discharged.

	2017 tonne	**2018 tonne**	**Variance Increase/ (decrease)**
Water consumption	324,911	387,764	19%
Water intensity			
Per piece[1]	0.01	0.02	100%
Per employee[2]	34.57	36.58	6%

Note:

Water intensity is calculated by dividing the water consumption by (1) the production volume; and (2) the number of employees.

Water is mainly consumed in its office premises for drinking and general cleaning and in factory premises for staff canteens, dormitories and toilets. Hence, the Group does not have any concern in sourcing water that is fit for such purpose. The Group's overall water consumption increased by 19% from 324,911 tonnes in 2017 to 387,764 tonnes in 2018, mainly as a result of the increased in number of staff and trial runs in relation to our new Cambodia factory plant during 2018. The Group will continue to promote energy and water-saving behaviour under its overall environmental management agenda.

Packaging materials

Packaging materials used for finished goods mainly comprise corrugate and paper, which correlates to the production of those goods in the Group's manufacturing plant.

	2017 tonne	**2018 tonne**	**Variance Increase/ (decrease)**
Packaging materials	2,406	2,467	3%
Packaging materials intensity			
Per piece (kg)	0.10	0.12	20%

Note:

Packaging materials intensity is calculated by dividing total packaging material by the production volume.

Total packaging materials used for finished goods of the Group slightly increased by 3% from 2,406 tonnes in 2017 to 2,467 tonnes in 2018. While the Group makes sincere efforts in terms of reducing packaging materials, our productions are made to the specifications of our customers. The Group will continue to encourage our customers to use lighter packaging, where possible.

2.4 Regulation and Compliance

The Group is not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group relating to air and GHG emission, discharges into water and land and generation of hazardous and non-hazardous wastes.

3. SOCIAL

3.1 Employment and Labour Practices

It is essential to acclaim the efficiency, quality and commitment of the workforce towards the organisation that has resulted in the significant development and success of the Group in the marketplace. With the aim to institute a favorable work environment the organisation took several steps which included creating a cross-cultural workforce, developing the competencies of employees, recognising, motivating and rewarding talent, ensuring their well-being and safety of all individuals. The Group also accolades the individuals continuously working to ensure enhanced skill and diversity. Moreover, the fundamental basis of the work culture that is publicized and boosted by the Group includes maintenance of safety measures and prosperity of the working members. The Group also established a Code of conduct, which is in line with the Anti-Corruption Policy published by the Hong Kong Independent Commission Against Corruption, the Anti-Fraud and Whistle blowing Policy.

3.2 Employment

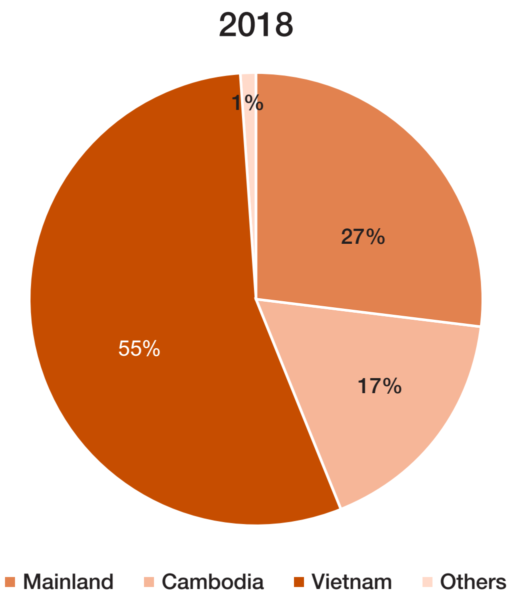
The Group has several non-discriminatory policies and practices well in place, to ensure equal opportunities across all sex, ethnicity, race, age, and religion. This opens avenues for every individuals being rendered with equal opportunities. Employing of individuals and promotions of existing employees is thus solely based on the qualifications, experience, and merits of the applicants and staff.

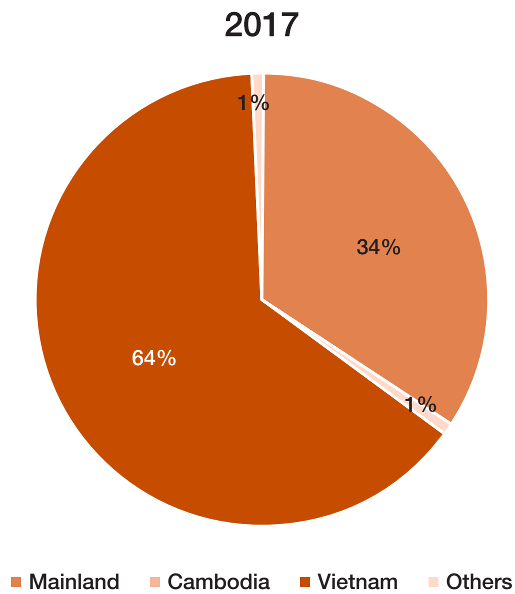
The enrollment of new employees is thus guided by policy that allows proficient aspirants who possess the appropriate outlook toward the job profile and also endowed with the required qualifications, experience and merits. The Group strictly follows a non-discriminatory policy which prioritises only talent as the sole driver of the probability of getting recruited. Contractual papers for the labors are prepared on time and a steady affair is retained and promoted with the laborers to comply with the law. Although, the process of recruitment helps to identify talented individuals, simultaneously holding on to the same set of individuals is also indispensable to ensure enhanced growth rate and success. Considering the fact, the Group bestows the potential employees with bonus, incentives and rewards, so as to keep them associated and motivated.

As per the records till 31 December 2018, the number of employees in the Group includes approximately 10,600 employees, of which 26% are male and 74% are female. The distribution of employees nation wise includes 27% employees in the Mainland, 55% in Vietnam, 17% in Cambodia and the rest in other locations.

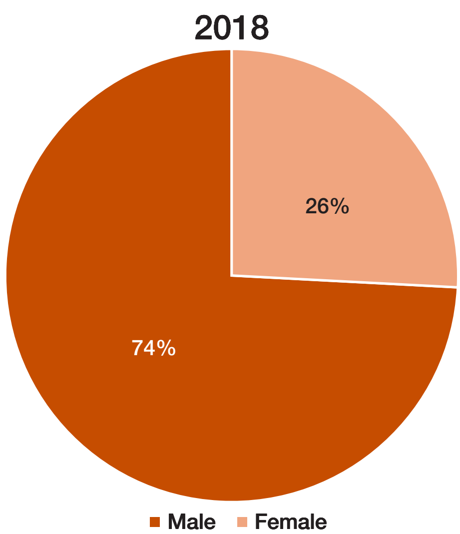
The Group offers salaries above the local minimum wage regulation. No non-compliance with the laws and regulations relating to labour and employment that have resulted or may result in significant impact on the Company was identified during the year.

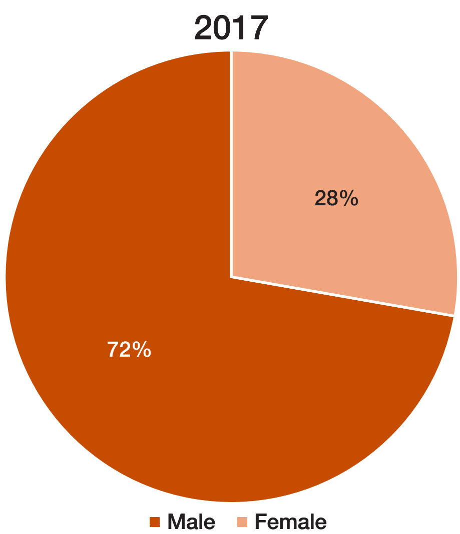
Number of Employees by Region





Number of Employees by Gender





3.3 Health and Safety

The Group intends to provide its employees with a healthy and secured workplace environment, which in turn ensures a sustainable corporate culture. Moreover, staying fit also makes the employees more apt to work efficiently thereby raising the all-round performance standards. In this regard, the employees are provided access to daylight and high level technology solutions.

The permanent employees are insured, to comply with the Employees' Compensation Ordinance. On the contrary, the general staff are served accident and medical insurance. Also, liability insurance is provided to the officers and the directors. The Group is also known to act in compliance with the Mandatory Provident Fund Schemes Ordinance in Hong Kong, Social Insurance Law of the PRC, Law on Social Insurance, Law on Occupational Safety and Hygiene in Vietnam, and the Law on Social Security Schemes for Persons Defined by the Provisions of the Labour Law of Cambodia.

The Administrative System of the Group's Office Area and the Safety and Security Management System are established to keep the employees secured and safe. Such systems comprises of several daily basis actions such as office cleanliness in a consistent and timely fashion, regular inspection of electricity, fire safety, and water cleanliness and security etc. The steps adopted by the organisation include:

1. In order to tackle incidences of fire outbreak, appropriate fire extinguishers and other related equipment are administered along with measures to ensure uninterrupted flow of fire channels. Moreover, the employees are also provided with the basic training to deal with fire eruptions.

2. Water safety is ensured through acquisition of pure and safe water for the purpose of drinking.

3. To ensure the health of the staff members, physical checkups are conducted annually to avert the occurrence of infectious and occupational diseases.

4. IT systems are protected with password and periodically changed to allow different access levels based on the position of employee.

5. Fraud risk assessment is conducted annually and any internal control deficiencies identified are communicated to the Board of Directors and senior management.

6. Financial control activities are documented and at a minimum cover controls around cash disbursement, accounts receivable, accounts payable, and inventory management.

During the year, no non-compliance with the laws and regulations relating to occupational safety that have resulted or may result in significant impact on the Company was identified.

3.4 Development and Training

The growth of business in terms of profit and reputation is positively influenced by the skilled and talented employees who are regarded as the precious belonging of any company. Moreover, the skilled employees of the Group are further embellished, not only to achieve growth and advancement in terms of business but also for their own growth. Regular training provides the employees with opportunities to share and gain knowledge. Appropriate assessment methods are employed to record the growth and progress of the employees. The benefits of comprehensive performance analysis include acquisition of data on the productivity and work efficiency of the working members. Moreover, it also helps to ascertain the power and shortcomings of an individual. A pellucid review method is employed on daily basis to keep a track record on the employees' performance, attitude and abilities. The ones who are identified as the best performers are also guerdoned with bonus incentives.

The Group search for multiple facets of employee development and training activities. Moreover, the Group also incorporated a wide variety of activities that deal with human resource development and training systems, performance evaluations, and responsibilities. Instead of providing the training during the work period, the employees are trained based on the prerequisites of the staff members before enrolling for the job. Such training schedules mainly comprises of internal lectures or field trips that again facilitates the employees to imbibe the technical knowledge distribution, workplace ethics, customer relationship management and risk management. Managerial skill trainings on the other hand help to make the employees dealing with management, more apt for their work. Team based activities are best suitable platform for the employees to share knowledge of their skills and thereby helps to maintain unity in the workplace.

3.5 Labour Standards

The employees are boosted further by the allocation of competitive remuneration and welfare packages. A strong and strict system of remunerations and associated benefits is maintained to execute the promotion opportunities, salary adjustments, rewards and recognition. Such a system primarily intends to value the talent of potential workers and thereby make them cling to the Group.

The Group strongly adheres the Labour Law of the People's Republic of China（中華人民共和國勞動法）, the Labour Code of Vietnam, the Labour Law of Cambodia, and laws and regulations of Hong Kong in respect of the Personal Data (Privacy) Ordinance, the Employment Ordinance, the Minimum Wage Ordinance, and other ordinances relating to occupational safety, as well as disability, sex, family status, and race discrimination. All the statements on the part of the Group such as the non-discrimination statement, the statement on work hours and abolition of child labor are included in the Employee Handbook, which depicts that the Group complies with all human rights.

During the year, the Group was unaware of any material breaches of employment labour laws and regulations related to child and forced labour in its operations, and other benefits and welfares concerning its employees.

4. OPERATING PRACTICES

4.1 Supply Chain Management

Several renowned brands are catered with quality supply chain management services rendered by the Group. Such practices have made the Group aware of the significant contribution of the suppliers in influencing sustainability of business operations. It is worthwhile mentioning that the suppliers apart from impacting the overall performance, also acts to uphold the stature of the Group among the societies who are served by the organisation. The business relies on several factors such as behavior, equality and sensitivity towards dynamic needs of stakeholders. Actions in this regard include employing fair and just attitude while conducting business activities with the supply chain partners. Such practices may vary from strong and supplier selection processes to negotiating contracts that we trust to be fair and justified. Moreover, the suppliers are provided with compensation within the contract terms and conditions.

The Procurement Team, Quality Assurance Team and Operation Team executed meticulous on site evaluations to set up an alliance in the expert skill or knowledge. Evaluation is a critical instrument utilised by team in order to implement acceptance and also search for measures that could be implemented by the suppliers to boost their performance. The adopted materials and methods used by the Group for supplier assessment are kept pellucid.

4.2 Product Responsibility

The business primarily relies on keeping the customers elated. This is accomplished through continuous efforts made by the Group to modify the products and services so as to ensure customer satisfaction. The uncompromising and trustworthy production process acts as the pillars of the business. Moreover, the employees endeavor to serve vigilant service to the customers.

The pledge to ensure customer contentment is achieved through catering environment friendly products of supreme quality. The infrastructure, systems and policies are continuously scrutinised to up hold the standards quality and texture of the products and services.

The quality control department facilitates in preserving the strict quality standards and traceability. Moreover, with the aim to preserve traceability and safety, the various production processes and operations from inspection of raw materials to finished goods are kept on a close check. The outcome is secured quality and reduced chances of associated risks. The products are also investigated regularly for product assessment and ascertaining the efficacy of the procedures. Further, the Group have obtained and maintained the ISO 9001:2008 certification for the design, development, manufacture, and sales and service of bags and packs in its PRC factories since 2009.

During the year, the Group was unaware of any material instances of non-compliance with relevant laws and regulations regarding advertising, health and safety, labeling and privacy matters. There are no current or pending regulatory actions or other litigation that is anticipated to have a significant impact on the Group.

4.3 Anti-Corruption

The sincere efforts made by the Group not only ensure continuous and balanced growth but also up holds the rectitude and faithfulness of the business in the marketplace. Incorporation of anti-corruption and anti-money laundering actions and laws within the business arena of the Group along with its internal working mechanisms, acts to guarantee the probity and trustworthiness. To cite an instance is the Anti-fraud and Whistle blowing policy, an outcome of anti-corruption, anti-fraud, and anti-malpractice policy that the Group pursue. Such a policy includes well defined methods that facilitate to keep a track record of any ill-suited behavior.

During the year, the Group was unaware of any matters concerning material instances of non-compliance with relevant laws and regulations regarding bribery, extortion, fraud, or money laundering in the countries where its employees are engaged. There are no current or pending regulatory actions or other litigation that is anticipated to have a material impact on the Group.

5. COMMUNITY

5.1 Community Investment

The ideology and outlook of the Group is to render the community with a good corporate citizen. The Group aims to identify the areas that require attention and hence act to engage with customers, employees, beneficiaries and the community at large, so that positive and long lasting results can be obtained. Moreover, the community is an integral part of the long lasting success of the Group. This necessitates the Group to be identified as a responsible corporate citizen. To portray that the Group acts on the sense of shared value, they inspire their employees to render support to the charitable organisations and also encourage them to participate in the charitable activities of the Group itself. It is notable to mention that the Group has also succeeded in imbibing a sense of responsibility among the staff members and their families towards the society, needy and particularly the physically disabled. Harmony, equality, and fairness are considered to lay the basis of such an attitude. This acts as an indicator of the active enthusiasm of the employees and their allegiance towards the organisation. To mention an example is the case in Cambodia, wherein the employees were observed to participate in volunteering activities and donating bags to local students. Moreover, the Group endeavor to advocate support and care in the local community by encouraging employees to participate in various voluntary activities such as visiting elderly and children with disabilities during festive occasions and holidays, supporting charitable hiking and walking events, and voluntary blood donation campaign for local blood centre to support life-saving initiatives in the PRC.

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Prosperous Industrial (Holdings) Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Prosperous Industrial (Holdings) Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 67 to 133, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

EY 安永

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Income tax estimation	
The Group operates in a number of countries or jurisdictions where income tax regulations and practices are different and there were transfer pricing arrangements amongst members of the Group with respect to the Group’s manufacturing and supply chain operations. In addition, the Group may be subject to enquiries or tax audits from time to time by tax authorities on a range of tax matters during the normal course of business. These result in complexities of the Group’s income tax provision estimation. The estimation of income tax provision was complex and involved significant management judgement to determine whether the Group’s intercompany transactions were subject to tax and the applicable tax rates for these transactions, taking into consideration the relevant tax regulations, interpretations and practices prevailing in the jurisdictions in which the Group operates. Given the complexity and judgemental nature of the income tax provision, we considered this a key audit matter. Related disclosures are included in notes 3, 4, 12 and 21 to the consolidated financial statements.	As part of our audit procedures, we obtained an understanding of and evaluated the assumptions used by the management in the estimation of the Group’s income tax provision, with the assistance of our internal tax specialists. We examined the latest correspondences with local tax authorities for identifying the tax risk areas and assessing the income tax provisions. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

EY 安永

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment	
The carrying amount of property, plant and equipment of the Group as at 31 December 2018 was US$40,187,000, which represented 21% of the Group's total assets and mainly represented the Group's production facilities in various countries. The management is required to perform impairment assessment on an asset if there is an indicator that the asset's recoverable amount may be lower than its carrying amount. The Group performed an impairment assessment of its property, plant and equipment in accordance with Hong Kong Accounting Standard ("**HKAS**") 36 *Impairment of Assets* issued by the HKICPA. In determining whether there is an impairment indicator, the management considers the production plan and operating performance of individual cash-generating units ("**CGUs**") which can generate independent cash flows, after taking into consideration, inter alia, their respective production capacities, forecast production plans, profitability of the productions from the Group's perspective, and the transfer pricing arrangements amongst the Group. Based on the results of the impairment assessment, an impairment loss of US$382,000 against the Group's property, plant and equipment was made during the year ended 31 December 2018. Given the complexity and judgemental nature of the assessment, we considered this a key audit matter. Related disclosures are included in notes 3, 4, and 15 to the consolidated financial statements.	As part of our audit procedures, we obtained an understanding of and evaluated the inputs used by the management in the assessment of the existence of any impairment indicators on the Group's property, plant and equipment. For the CGUs that have impairment indicators, we checked the assumptions, approved business plan and production plan used by the management in determining the recoverable amount of the related CGUs. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

EY安永

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

EY 安永

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHENG Man.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
REVENUE	6	**221,849**	258,498
Cost of sales		**(172,374)**	(195,683)
Gross profit		**49,475**	62,815
Other income and gains, net	7	**2,291**	2,211
Selling and distribution expenses		**(15,401)**	(14,914)
Administrative expenses		**(26,348)**	(23,530)
Other expenses, net		**(887)**	(952)
Finance costs	8	**(63)**	–
PROFIT BEFORE TAX	9	**9,067**	25,630
Income tax	12	**(1,697)**	(4,548)
PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**7,370**	21,082
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods – Exchange differences on translation of foreign operations		**(2,101)**	2,209
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods – Defined benefit plan:			
Actuarial gain/(loss)	26(a)	**288**	(172)
Income tax effect	25	**(48)**	29
		240	(143)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**(1,861)**	2,066
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**5,509**	23,148
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic and diluted (US cent)		**0.76**	2.51

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 US$'000	2017 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**40,187**	36,438
Prepaid land lease payments	16	**3,185**	3,478
Intangible assets	17	**831**	874
Equity investment at fair value through other comprehensive income	18	**2**	–
Available-for-sale investment	18	**–**	2
Prepayments, deposits and other receivables	21	**1,804**	3,540
Deferred tax assets	25	**832**	195
Total non-current assets		**46,841**	44,527
CURRENT ASSETS			
Prepaid land lease payments	16	**104**	110
Inventories	19	**34,924**	33,132
Trade and bills receivables	20	**35,666**	44,360
Prepayments, deposits and other receivables	21	**8,694**	6,491
Income tax recoverable		**71**	–
Cash and bank balances	22	**63,772**	71,321
Total current assets		**143,231**	155,414
CURRENT LIABILITIES			
Trade and bills payables	23	**19,065**	23,347
Other payables and accruals	24	**17,865**	23,207
Dividend payable		**–**	35,000
Income tax payables		**9,754**	8,958
Total current liabilities		**46,684**	90,512
NET CURRENT ASSETS		**96,547**	64,902
TOTAL ASSETS LESS CURRENT LIABILITIES		**143,388**	109,429
NON-CURRENT LIABILITIES			
Defined benefit obligations	26(a)	**787**	1,104
Net assets		**142,601**	108,325
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Issued capital	27	**1,436**	1,000
Reserves	29(a)	**141,165**	107,325
Total equity		**142,601**	108,325

YEUNG Shu Kin
Director

DUONG Stephen Dien Sieu
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2018

	Notes	Issued capital US$'000	Share premium account US$'000	Capital reserve US$'000 (note 28(b))	Defined benefit plan reserve US$'000	Exchange fluctuation reserve US$'000	Statutory reserves US$'000 (note 28(c))	Retained profits US$'000	Total equity US$'000
Year ended 31 December 2018									
At 31 December 2017		1,000	–	19,052	126	2,073	262	85,812	108,325
Effect of adoption of HKFRS 9	2.2(a)	–	–	–	–	–	–	(302)	(302)
At 1 January 2018 (restated)		1,000	–	19,052	126	2,073	262	85,510	108,023
Profit for the year		–	–	–	–	–	–	7,370	7,370
Other comprehensive income/(loss) for the year:									
– Exchange differences on translation of foreign operations		–	–	–	–	(2,101)	–	–	(2,101)
– Actuarial gain of a defined benefit plan, net of income tax		–	–	–	240	–	–	–	240
Total comprehensive income/(loss) for the year		–	–	–	240	(2,101)	–	7,370	5,509
Issue of new shares pursuant to a capitalisation issue in connection with the Global Offering (as defined in note 1)	27(c)	77	(77)	–	–	–	–	–	–
Issue of new shares pursuant to the Global Offering	27(d)	359	31,790	–	–	–	–	–	32,149
Expenses incurred in connection with the Global Offering	27(d)	–	(3,080)	–	–	–	–	–	(3,080)
At 31 December 2018		1,436	28,633*	19,052*	366*	(28)*	262*	92,880*	142,601
Year ended 31 December 2017									
At 1 January 2017		1,000	–	19,052	269	(136)	248	99,744	120,177
Profit for the year		–	–	–	–	–	–	21,082	21,082
Other comprehensive income/(loss) for the year:									
– Exchange differences on translation of foreign operations		–	–	–	–	2,209	–	–	2,209
– Actuarial loss of a defined benefit plan, net of income tax		–	–	–	(143)	–	–	–	(143)
Total comprehensive income/(loss) for the year		–	–	–	(143)	2,209	–	21,082	23,148
Interim 2017 dividend		–	–	–	–	–	–	(35,000)	(35,000)
Transfer to statutory reserves		–	–	–	–	–	14	(14)	–
At 31 December 2017		1,000	–*	19,052*	126*	2,073*	262*	85,812*	108,325

* These reserve accounts comprise the consolidated reserves of US$141,165,000 (2017: US$107,325,000) in the consolidated statement of financial position as at 31 December 2018.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**9,067**	25,630
Adjustments for:			
Interest income	7	**(462)**	(521)
Finance costs		**63**	–
Depreciation	9	**5,243**	4,368
Amortisation of prepaid land lease payments	9	**109**	106
Amortisation of intangible assets	9	**180**	239
Dividend income from an equity investment at fair value through other comprehensive income	7	**(3)**	–
Loss on disposal of items of property, plant and equipment, net	9	**79**	123
Reversal of impairment of trade receivables	9	**(32)**	(22)
Impairment of property, plant and equipment	9	**382**	–
Write-off of obsolete inventories	9	**526**	325
		15,152	30,248
Increase in inventories		**(2,205)**	(1,052)
Decrease in trade and bills receivables		**8,382**	270
Decrease/(increase) in prepayments, deposits and other receivables		**1,837**	(1,978)
Increase/(decrease) in trade and bills payables		**(4,422)**	460
Increase/(decrease) in other payables and accruals		**(5,321)**	4,174
Increase in defined benefit obligations		**–**	4
Cash generated from operations		**13,423**	32,126
Income tax paid		**(4,841)**	(1,688)
Net cash flows from operating activities		**8,582**	30,438
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		**3**	–
Purchases of items of property, plant and equipment		**(10,068)**	(2,947)
Proceeds from disposal of items of property, plant and equipment		**330**	160
Additions to intangible assets		**(149)**	(210)
Gross increase in time deposits with maturity of more than three months when acquired		**(4,505)**	–
Gross decrease in time deposits with maturity of more than three months when acquired		**–**	8,102
Gross decrease in pledged bank deposits relating to investing activities		**–**	658
Interest received		**462**	521
Net cash flows from/(used in) investing activities		**(13,927)**	6,284

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27(d)	**32,149**	–
Share issue expenses	27(d)	**(3,080)**	–
Repayment to a director	30	**–**	(3,211)
Finance costs paid		**(63)**	–
Dividend paid	30	**(35,000)**	–
Net cash flows used in financing activities		**(5,994)**	(3,211)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(11,339)**	33,511
Cash and cash equivalents at beginning of year		**71,321**	36,959
Effect of foreign exchange rate changes, net		**(715)**	851
CASH AND CASH EQUIVALENTS AT END OF YEAR		**59,267**	71,321
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	22	**56,657**	59,990
Time deposits	22	**7,115**	11,331
Cash and cash equivalents as stated in the consolidated statement of financial position		**63,772**	71,321
Less: Time deposits with maturity of more than three months when acquired		**(4,505)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**59,267**	71,321

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Prosperous Industrial (Holdings) Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the principal place of business of the Company is located at Unit 1-2, 1/F, Join-In Hang Sing Centre, 71-75 Container Port Road, Kwai Chung, New Territories, Hong Kong.

During the year, the Company made an offer to the public for subscription of its new shares and undertook an international placing of its new shares (collectively, the "**Global Offering**") in connection with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Dealing of the Company's shares on the Stock Exchange commenced on 13 July 2018.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively, the "**Group**") were principally involved in the manufacturing and sale of sport bags, handbags and luggage bags.

In the opinion of the directors of the Company, the immediate holding company and the ultimate holding company of the Company is Prosperous Holdings (Overseas) Limited, which is incorporated in the British Virgin Islands (the "**BVI**").

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Company Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company	Group	Principal activities
Prosperous International Limited	Hong Kong	HK$10,000	100%	100%	Trading of sport bags, handbags and luggage bags
Starite International Limited	Hong Kong	HK$10,000	100%	100%	Trading of sport bags, handbags and luggage bags
RGL International Macao Commercial Offshore Limited	Macau	MOP100,000	–	100%	Provision of raw material sourcing services and trading of sport bags, handbags and luggage bags
Glorieux International (H.K.) Limited	Hong Kong	HK$1	100%	100%	Provision of raw material sourcing services and trading of sport bags, handbags and luggage bags
廣州澤榮旅行用品有限公司^@	PRC/Mainland China	HK$92,000,000	–	100%	Bag product development and design
Starite International Vietnam Limited@	Vietnam	US$2,500,000	–	100%	Manufacturing and sale of sport bags, handbags and luggage bags

1. CORPORATE AND GROUP INFORMATION *(continued)*

Company Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company	Group	Principal activities
廣州坑頭手袋旅行用品有限公司^@	PRC/Mainland China	US$2,000,000	–	100%	Manufacturing and sale of sport bags, handbags and luggage bags
東莞澤榮箱包有限公司^@	PRC/Mainland China	HK$27,000,000	–	100%	Manufacturing and sale of sport bags, handbags and luggage bags
東莞精博旅行用品有限公司^@	PRC/Mainland China	HK$10,000,000	–	100%	Manufacturing and sale of sport bags, handbags and luggage bags
Starite (Cambodia) Co., Ltd@	Cambodia	US$5,000,000	–	100%	Manufacturing and sale of sport bags, handbags and luggage bags
Prosperous Enterprises (Taiwan) Limited ("**PEL**")@	Taiwan	NTD30,000,000	100%	100%	Provision of raw material sourcing services and retail sale of sport bags, handbags and luggage bags

^ Registered as wholly-foreign-owned enterprises under PRC Law.

@ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for (i) equity investment at fair value through other comprehensive income which has been measured at fair value; and (ii) defined benefit obligations which have been measured in accordance with the accounting policy for "Defined benefit plan" set out in note 3 to the financial statements. These financial statements are presented in the United States dollar (the "**US$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

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*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and HK(IFRIC)-Int 22, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement				HKFRS 9 measurement	
	Category	Amount	Reclassification	ECL	Amount	Category
		US$'000	*US$'000*	*US$'000*	*US$'000*	
Financial assets						
Equity investment at fair value through other comprehensive income	N/A	–	2	–	2	FVOCI[1] (equity)
From: Available-for-sale investment (note)			2	–		
Available-for-sale investment	AFS[2]	2	(2)	–	–	N/A
To: Equity investment at fair value through other comprehensive income (note)			(2)	–	–	N/A
Trade and bills receivables	L&R[3]	44,360	–	(302)	44,058	AC[4]
Financial assets included in prepayments, deposits and other receivables	L&R	8,106	–	–	8,106	AC
Cash and bank balances	L&R	71,321	–	–	71,321	AC
			–	(302)		
Financial liabilities						
Trade and bills payables	AC	23,347	–	–	23,347	AC
Financial liabilities included in other payables and accruals	AC	22,837	–	–	22,837	AC
			–	–		

1 FVOCI: Financial asset at fair value through other comprehensive income

2 AFS: Available-for-sale investment

3 L&R: Loans and receivables

4 AC: Financial assets or financial liabilities at amortised cost

Note: The Group has elected the option to irrevocably designate its previous available-for-sale equity investment as equity investment at fair value through other comprehensive income.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9:

	Impairment allowances under HKAS 39 as at 31 December 2017 US$'000	Remeasurement US$'000	ECL allowances under HKFRS 9 as at 1 January 2018 US$'000
Trade receivables	38	302	340

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits US$'000
Balance as at 31 December 2017 under HKAS 39	85,812
Recognition of expected credit losses for trade receivables under HKFRS 9	(302)
Balance as at 1 January 2018 under HKFRS 9	85,510

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and they apply, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) *(continued)*

The financial impact of the adoption of HKFRS 15 on these financial statements is summarised as follows:

Revenue recognition

The Group was principally involved in the manufacturing and sale of sports bags, handbags and luggage bags. Prior to the adoption of HKFRS 15, revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

The Group has assessed that, based on the terms of the sale agreements entered into between the Group and customers, the Group does not have an enforceable right to payment for performance completed to date. Accordingly, the criteria set out in HKFRS 15 for recognising revenue over time are not met for the sale of goods. On account of this, the Group continues to recognise the sale of goods until the point in time when the Group delivers the goods to the customers. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition, the financial position and results of operations of the Group, but resulting in more disclosures in the current year's financial statements.

Classification of consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance for the sale of goods as receipts in advance which are included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified US$283,000 from receipts in advance to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

At 31 December 2018, under HKFRS 15, the consideration received from customers in advance of US$572,000 as at that date for the sale of goods was classified as contract liabilities instead of receipts in advance.

(c) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 *The Effects of Changes in Foreign Exchange Rates* to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement Contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40 *Investment Property*, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(a) (continued)

The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets and lease liabilities of approximately US$9,579,000 each will be recognised at 1 January 2019.

(b) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 *Income Taxes* (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or a joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to a holding company of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its defined benefit obligations and equity investment at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Freehold land	Not depreciated
Leasehold land	Over the lease terms
Buildings	20 to 42 years, or over the lease terms of the relevant land, whichever is the shorter
Leasehold improvements	Over the lease terms or 4 to 10 years, whichever is the shorter
Machinery and equipment	4 to 10 years
Furniture and fixtures	4 to 10 years
Motor vehicles	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold properties/buildings and other property, plant and equipment under construction, which is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets of the Group are assessed to be either finite or indefinite.

Intangible assets with finite lives include computer software and a licence, and are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The estimated useful lives of intangible assets with finite lives for the purpose of amortisation are as follows:

Computer software	3 to 8 years
Licence	2 years

Upon the change of a local law in Macau with effect from 28 December 2018, the Group changed the estimated useful life of its licence from indefinite to 2 years. This change in accounting estimate has been applied prospectively and has resulted in an increase in amortisation of approximately US$3,000 for the year ended 31 December 2018.

Intangible asset with an indefinite useful life includes a club membership (2017: a club membership and a licence) and is tested for impairment annually either individually or at the cash-generating unit level. Such intangible asset is not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or fair value through other comprehensive income, as appropriate.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset (debt instrument) to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(b) Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investment as equity investment at fair value through other comprehensive income when it meets the definition of equity under HKAS 32 *Financial Instruments: Presentation* and is not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on this financial asset is never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investment at fair value through other comprehensive income is not subject to impairment assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables or available-for-sale financial investment, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

(b) Available-for-sale investment

Available-for-sale investment of the Group is a non-derivative financial asset in an unlisted equity security. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

The Group's available-for-sale investment is stated at cost less any impairment losses because its fair value cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

Financial assets carried at amortised cost *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Available-for-sale investment

If there is objective evidence that an impairment loss has been incurred on the Group's available-for-sale investment (an unquoted equity investment), the amount of the loss to be recognised in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on this asset is not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as financial liabilities at amortised cost. All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and dividend payable.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included as finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of sports bags, handbags and luggage bags

Revenue from the sale of sports bags, handbags and luggage bags is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the sports bags, handbags and luggage bags.

(b) Subcontracting services

Revenue from the provision of subcontracting services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance enhances an asset that the customer controls as the asset is enhanced. The input method recognises revenue on the basis of labour time spent on the services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income

Dividend income are recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income and compensation income, when the right to receive payment has been established.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contracts for services (applicable before 1 January 2018) *(continued)*

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Employee benefits

Defined contribution plans

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China, Vietnam, Cambodia and Macau are required to participate in central pension schemes or social security schemes operated by local governments, the assets of which are held separately from those of the Group. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes and social security schemes. The employer contributions vest fully once made.

The Group also operates a defined contribution retirement benefit scheme under the Labour Pension Act of Taiwan for its employees recruited on and subsequent to 1 July 2005 by the Group's subsidiary in Taiwan. Based on the Labour Pension Act of Taiwan, the Group's monthly contribution to individual pension accounts of employees covered by the defined contribution plan is at 6% of monthly salaries and wages. The funds are deposited in individual labour pension accounts at the Bureau of Labour Insurance of Taiwan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Defined benefit plan

The Group operates a defined benefit pension plan for certain employees of a subsidiary of the Company established in Taiwan. The plan requires contributions to be made to a separately administered fund and the benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the defined benefit pension plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Borrowing costs

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. All borrowing costs are expensed in profit or loss in the period in which they are incurred.

Dividends

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in the US dollar, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries are currencies other than the US dollar. As at the end of each of the reporting period, the assets and liabilities of these entities are translated into the US dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into the US dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries which have functional currencies other than the US dollar are translated into the US dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into the US dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts and the accompanying disclosures of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge when useful lives and residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Income tax

The Group is subject to income taxes in Hong Kong, Mainland China, Vietnam and overseas. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain during the ordinary course of business. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amounts of current tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2018 was US$9,754,000 (2017: US$8,958,000).

5. OPERATING SEGMENT INFORMATION

Operating segment information

No operating segment information is presented as the Group only operates in one single operating segment, i.e., manufacturing and sale of sport bags, handbags and luggage bags.

Geographical information

(a) Revenue from external customers

	2018	2017
	US$'000	US$'000
The United States of America (the "**USA**")	**87,062**	115,396
Mainland China	**38,279**	40,875
Netherlands	**18,306**	31,371
Japan	**16,333**	15,631
Hong Kong	**3,528**	8,058
Others	**58,341**	47,167
	221,849	258,498

The revenue information above is based on the destination of goods delivered, irrespective of the origin of the goods.

(b) Non-current assets

	2018	2017
	US$'000	US$'000
Mainland China	**17,753**	21,256
Vietnam	**14,584**	15,243
Cambodia	**6,701**	1,076
Taiwan	**3,687**	4,032
Others	**1,699**	1,085
	44,424	42,692

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

5. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

During the year, the Group had transactions with three (2017: three) external customers which individually contributed over 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out below:

	2018 US$'000	2017 US$'000
Customer A	47,134	70,286
Customer B	43,797	45,574
Customer C	42,509	38,198

6. REVENUE

Revenue represents sales of sport bags, handbags and luggage bags.

(a) Disaggregation of revenue

	2018 US$'000
By geographical markets	
The USA	87,062
Mainland China	38,279
Netherlands	18,306
Japan	16,333
Hong Kong	3,528
Others	58,341
Total revenue from contracts with customers	221,849
By product category	
Outdoor and sporting bags	137,348
Functional bags	47,252
Fashion and casual bags	31,765
Others	5,484
Total revenue from contracts with customers	221,849
By timing of revenue recognition	
Total revenue from contracts with customers – at a point in time	221,849

The revenue recognised during the year ended 31 December 2018 that was included in contract liabilities as at 1 January 2018 amounted to US$283,000. No revenue recognised during the year ended 31 December 2018 related to performance obligations satisfied or partially satisfied in previous years.

6. REVENUE *(continued)*

(b) Performance obligation – Sale of sport bags, handbags and luggage bags

The performance obligation is satisfied upon delivery of the sport bags, handbags and luggage bags and payment is generally due within 15 to 105 days from delivery.

7. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net is as follows:

	2018 US$'000	2017 US$'000
Other income		
Bank interest income	**462**	521
Dividend income of equity investment at fair value through other comprehensive income	**3**	–
Subcontracting service income	**81**	–
Government grants*	**128**	267
Compensation income	**22**	46
Charges levied on customers	**620**	748
Others	**283**	274
	1,599	1,856
Gains, net		
Foreign exchange gains, net	**494**	160
Gain on sale of scrap materials	**198**	195
	692	355
Other income and gains, net	**2,291**	2,211

* The amounts represented subsidies received from various government authorities in Mainland China during the year for the development of the Group's business. There are no unfulfilled conditions or contingencies relating to these grants.

8. FINANCE COSTS

Finance costs for the current year represent factoring fees on certain designated trade receivables, details of which are set out in note 20(d) to the financial statements.

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 US$'000	2017 US$'000
Cost of inventories sold		**169,218**	192,654
Depreciation	15	**5,243**	4,368
Less: Amount included in cost of inventories sold		**(3,120)**	(2,978)
		2,123	1,390
Amortisation of prepaid land lease payments	16	**109**	106
Amortisation of intangible assets*	17	**180**	239
Less: Amount included in cost of inventories sold		**(36)**	(51)
		144	188
Minimum lease payments under operating leases		**3,064**	2,744
Auditor's remuneration		**342**	232
Employee benefit expense (including directors' remuneration):			
Salaries, allowances and benefits in kind		**65,217**	61,879
Defined contribution scheme contributions		**2,100**	3,190
Net benefit expense of a defined benefit plan	26(a)	**17**	20
		67,334	65,089
Less: Amount included in cost of inventories sold		**(47,162)**	(44,428)
		20,172	20,661
Research and development costs		**3,907**	3,335
Write-off of obsolete inventories		**526**	325
Reversal of impairment of trade receivables**	20(c)	**(32)**	(22)
Loss on disposal of items of property, plant and equipment, net**		**79**	123
Impairment of items of property, plant and equipment**	15(b)	**382**	–
Listing expenses		**2,488**	746

9. PROFIT BEFORE TAX *(continued)*

* The amortisation of intangible assets are included in the following line items on the face of the consolidated statement of profit or loss and other comprehensive income:

	2018 US$'000	2017 US$'000
Cost of sales	36	51
Selling and distribution expenses	37	25
Administrative expenses	107	163
	180	239

** These amounts are included in "Other expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

	2018 US$'000	2017 US$'000
Fees	36	–
Other emoluments:		
Salaries, allowances and benefits in kind	457	446
Discretionary and performance related bonuses	252	627
Defined contribution scheme contributions	8	11
	717	1,084
	753	1,084

10. DIRECTORS' REMUNERATION *(continued)*

An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary and performance related bonuses US$'000	Defined contribution scheme contributions US$'000	Total US$'000
Year ended 31 December 2018					
Executive directors					
Mr. Yeung Shu Kin@	–	231	110	–	341
Mr. Yeung Shu Kai@	–	151	110	5	266
Mr. Duong Stephen Dien Sieu@	–	75	32	3	110
Non-executive directors					
Mr. Lu Chin Chu△	–	–	–	–	–
Mr. Tsai Nai Yung△	–	–	–	–	–
Independent non-executive directors					
Mr. Chiu Che Chung Alan#	12	–	–	–	12
Mr. Ko Siu Tak#	12	–	–	–	12
Mr. Yip Kwok Cheung#	12	–	–	–	12
	36	457	252	8	753
Year ended 31 December 2017					
Mr. Yeung Ming Sum^	–	42	–	–	42
Ms. Yeung Wor Foon^	–	72	–	–	72
Mr. Yeung Shu Kin	–	228	187	–	415
Mr. Lu Chin Chu	–	–	65	–	65
Mr. Tsai Nai Yung	–	–	65	–	65
Mr. Yeung Shu Kai*	–	70	187	8	265
Mr. Duong Stephen Dien Sieu*	–	34	123	3	160
	–	446	627	11	1,084

^ Resigned on 1 August 2017

* Appointed on 1 August 2017

@ Redesignated as executive directors on 29 March 2018

△ Redesignated as non-executive directors on 29 March 2018

Appointed on 19 June 2018

Notes:

(a) The remuneration of the directors disclosed above only included their remuneration during the period when they are holding the office as directors of the Company.

(b) There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2018 included two (2017: one) directors of the Company, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2017: four) non-director highest paid employees for the year are as follows:

	2018 US$'000	2017 US$'000
Salaries, allowances and benefits in kind	590	244
Discretionary and performance related bonuses	413	2,386
Defined contribution scheme contributions	6	–
	1,009	2,630

The number of the non-director highest paid employees whose remuneration fell within the following bands is as follows:

	2018	2017
HK$2,000,001 to HK$2,500,000	2	–
HK$2,500,001 to HK$3,000,000	1	1
HK$5,000,001 to HK$5,500,000	–	2
HK$6,500,001 to HK$7,000,000	–	1
	3	4

12. INCOME TAX

An analysis of the Group's income tax is as follows:

	2018 US$'000	2017 US$'000
Current:		
Charge for the year	2,264	4,342
Underprovision in prior years	133	61
Withholding tax on undistributed profits	–	13
Withholding tax on interest income from intercompany loans	22	22
	2,419	4,438
Deferred tax (note 25)	(722)	110
Total tax expense for the year	1,697	4,548

12. INCOME TAX *(continued)*

Notes:

(a) Applicable income tax rates

The Group's subsidiary established in Macau is exempt from Macau profit tax under the relevant law and regulations in Macau.

A summary of applicable income tax rates of the jurisdictions in which the Group has operations during the year is as follows:

	2018 %	2017 %
Hong Kong	**16.5**	16.5
Vietnam#	**20**	20
Mainland China	**25**	25
Cambodia*	**20**	20

\# In accordance with the relevant tax rules and regulations in Vietnam, the Group's subsidiary in Vietnam enjoys a concessionary corporate income tax rate of 7.5% for certain of its assessable income during the year.

* In accordance with the relevant tax rules and regulations in Cambodia, the Group's subsidiary in Cambodia enjoys an income tax exemption during the year.

(b) A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2018 US$'000	2017 US$'000
Profit before tax	**9,067**	25,630
Tax expense at the statutory tax rates	**1,162**	4,140
Adjustments in respect of current tax of previous periods	**133**	61
Effect of corporate income tax rebate	**–**	(8)
Lower concessionary tax rates enacted by local authorities	**(478)**	(641)
Withholding tax on undistributed profits	**–**	13
Withholding tax on interest income from intercompany loans	**22**	22
Income not subject to tax	**(158)**	(169)
Expenses not deductible for tax	**154**	1,155
Tax effect of unrecognised temporary differences	**(14)**	11
Tax losses not recognised as deferred tax assets	**876**	172
Tax losses utilised from previous periods	**–**	(208)
Tax expense at the Group's effective tax rate of 18.7% (2017: 17.7%)	**1,697**	4,548

13. DIVIDENDS

	2018 US$'000	2017 US$'000
Interim – Nil (2017: US$35) per ordinary share	–	35,000
Proposed final – HK1.5 cents (equivalent to approximately US0.19 cent) (2017: Nil) per ordinary share	2,168	–
Proposed special – HK3.5 cents (equivalent to approximately US0.45 cent) (2017: Nil) per ordinary share	5,058	–
	7,226	35,000

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to shareholders of the Company of US$7,370,000 (2017: US$21,082,000), and the weighted average number of ordinary shares in issue of 972,712,329 (2017: 840,000,000) during the year, as if the changes in the issued number of ordinary shares of the Company as disclosed in notes 27(b) and (c) to the financial statements, had been completed on 1 January 2017.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during each of these years.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'000	Leasehold land and buildings US$'000 (note (a))	Leasehold improvements US$'000	Machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Year ended 31 December 2018								
At 1 January 2018:								
Cost	2,313	23,343	13,262	16,960	7,155	1,254	–	64,287
Accumulated depreciation	–	(3,104)	(7,344)	(11,287)	(5,462)	(652)	–	(27,849)
Net carrying amount	2,313	20,239	5,918	5,673	1,693	602	–	36,438
Net carrying amount:								
At 1 January 2018	2,313	20,239	5,918	5,673	1,693	602	–	36,438
Additions	–	–	3,807	4,735	2,133	55	337	11,067
Transfer from construction in progress	–	132	92	–	–	–	(224)	–
Depreciation provided during the year	–	(684)	(1,546)	(1,866)	(1,033)	(114)	–	(5,243)
Impairment recognised during the year (note (b))	–	–	(124)	(231)	(27)	–	–	(382)
Disposals/write-off	–	–	(10)	(67)	(325)	(7)	–	(409)
Exchange realignment	(70)	(735)	(223)	(189)	(46)	(20)	(1)	(1,284)
At 31 December 2018	2,243	18,952	7,914	8,055	2,395	516	112	40,187
At 31 December 2018:								
Cost	2,243	22,590	15,385	18,928	7,783	1,224	112	68,265
Accumulated depreciation and impairment	–	(3,638)	(7,471)	(10,873)	(5,388)	(708)	–	(28,078)
Net carrying amount	2,243	18,952	7,914	8,055	2,395	516	112	40,187
Year ended 31 December 2017								
At 1 January 2017:								
Cost	2,091	22,708	12,259	16,785	7,042	1,341	–	62,226
Accumulated depreciation	–	(2,320)	(6,114)	(10,794)	(5,585)	(661)	–	(25,474)
Net carrying amount	2,091	20,388	6,145	5,991	1,457	680	–	36,752
Net carrying amount:								
At 1 January 2017	2,091	20,388	6,145	5,991	1,457	680	–	36,752
Additions	–	–	629	1,353	1,145	36	–	3,163
Depreciation provided during the year	–	(678)	(1,072)	(1,583)	(913)	(122)	–	(4,368)
Disposals/write-off	–	–	(3)	(216)	(50)	(14)	–	(283)
Exchange realignment	222	529	219	128	54	22	–	1,174
At 31 December 2017	2,313	20,239	5,918	5,673	1,693	602	–	36,438
At 31 December 2017:								
Cost	2,313	23,343	13,262	16,960	7,155	1,254	–	64,287
Accumulated depreciation	–	(3,104)	(7,344)	(11,287)	(5,462)	(652)	–	(27,849)
Net carrying amount	2,313	20,239	5,918	5,673	1,693	602	–	36,438

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) The Group leased certain factory buildings and related leasehold land from a fellow subsidiary of a shareholder of the Company for production of the Group's products in Vietnam. In accordance with the lease agreements entered into between the two parties. the Group is subject to the payment of rentals, which have been settled in full by the Group in prior years, and certain ancillary service fees (including public facility maintenance, utility and building management expenses), which shall be charged by the fellow subsidiary of that shareholder on a monthly basis. The lease period of these factory buildings and related leasehold land shall expire on 11 January 2055, which represents the end of the lease period of the leasehold land use rights owned by the fellow subsidiary of that shareholder.

In the opinion of the directors, these lease arrangements are finance leases in nature and accordingly, such factory buildings and related leasehold land are accounted for as property, plant and equipment of the Group. The carrying amounts of these assets included in the leasehold land and buildings as at 31 December 2018 amounted to US$9,313,000 (2017: US$9,777,000).

(b) There was a change in business plan of the Group during the year and a production plant located in Mainland China was closed in January 2019. Based on the results of the impairment assessment made by management of the Company, an impairment loss of US$382,000 (2017: Nil) was recognised against the property, plant and equipment of the relevant cash-generating unit during the year.

16. PREPAID LAND LEASE PAYMENTS

	2018 **US$'000**	2017 US$'000
Carrying amount as at 1 January	**3,588**	3,518
Amortisation provided during the year	**(109)**	(106)
Exchange realignment	**(190)**	176
Carrying amount as at 31 December	**3,289**	3,588
Portion classified as current assets	**(104)**	(110)
Non-current portion	**3,185**	3,478

17. INTANGIBLE ASSETS

	Computer software US$'000	Licence US$'000	Club membership US$'000	Total US$'000
Year ended 31 December 2018				
At 1 January 2018:				
Cost	977	492	74	1,543
Accumulated amortisation	(669)	–	–	(669)
Net carrying amount	308	492	74	874
Net carrying amount:				
At 1 January 2018	308	492	74	874
Additions	149	–	–	149
Amortisation provided during the year	(177)	(3)	–	(180)
Exchange realignment	(12)	–	–	(12)
At 31 December 2018	268	489	74	831
At 31 December 2018:				
Cost	1,072	492	74	1,638
Accumulated amortisation	(804)	(3)	–	(807)
Net carrying amount	268	489	74	831
Year ended 31 December 2017				
At 1 January 2017:				
Cost	726	492	74	1,292
Accumulated amortisation	(404)	–	–	(404)
Net carrying amount	322	492	74	888
Net carrying amount:				
At 1 January 2017	322	492	74	888
Additions	210	–	–	210
Amortisation provided during the year	(239)	–	–	(239)
Exchange realignment	15	–	–	15
At 31 December 2017	308	492	74	874
At 31 December 2017:				
Cost	977	492	74	1,543
Accumulated amortisation	(669)	–	–	(669)
Net carrying amount	308	492	74	874

18. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT

	2018 US$'000	2017 US$'000
Equity investment at fair value through other comprehensive income		
Unlisted equity investment, at fair value:		
友勁投資股份有限公司	**2**	–
Available-for-sale investment		
Unlisted equity investment, at cost	**–**	2

Upon the adoption of HKFRS 9 on 1 January 2018, the above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

At 31 December 2017, the unlisted equity investment is not stated at fair value but at cost less any accumulated impairment losses, because it does not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for this investment and the probabilities of the various estimates cannot be reasonably assessed.

19. INVENTORIES

	2018 US$'000	2017 US$'000
Raw materials	**10,575**	9,134
Work in progress	**8,216**	9,568
Finished goods	**16,133**	14,430
	34,924	33,132

20. TRADE AND BILLS RECEIVABLES

	Notes	2018 US$'000	2017 US$'000
Trade receivables	(a)	**35,974**	44,398
Bills receivable		**–#**	–
Impairment	(c)	**(308)**	(38)
		35,666	44,360

Less than US$500.

Notes:

(a) The Group's trading terms with its customers for sale of goods are mainly on credit. The credit period is generally 15 to 105 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to certain customers with good reputation, in the opinion of the directors of the Company, there is no significant credit risk. Trade receivables are non-interest-bearing.

(b) An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 US$'000	2017 US$'000
Within 1 month	**17,499**	25,729
1 to 2 months	**9,868**	13,974
2 to 3 months	**4,977**	3,370
Over 3 months	**3,322**	1,287
	35,666	44,360

(c) The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 US$'000	2017 US$'000
At 1 January:		
As previously reported	**38**	60
Effect of adoption of HKFRS 9	**302**	–
As restated	**340**	60
Reversal of impairment losses (note 9)	**(32)**	(22)
At 31 December	**308**	38

20. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: *(continued)*

(c) *(continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the average of historical incurred credit loss experience on each ageing group of trade receivables. Customers with credit deterioration (i.e., a overdue by more than 6 months) will be assessed on an individual basis for the provision of expected credit losses. Generally, trade receivables are written off if they are not considered recoverable by the Group and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 December 2018

	Ageing			
	Less than 1 month US$'000	**1 to 3 months** US$'000	**Over 3 months** US$'000	**Total** US$'000
Category:				
(i) Customers with good credit	17,499	14,845	3,227	35,571
(ii) Customers with credit deterioration	–	–	403	403
Gross trade receivables	17,499	14,845	3,630	35,974
Less: Expected credit losses	–	–	(308)	(308)
Net trade receivables	17,499	14,845	3,322	35,666
ECL rates	0%	0%	8.5%	0.9%

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for an impaired trade receivable with a carrying amount before provision of US$38,000. The impaired trade receivable as at 31 December 2017 related to a customer that was in financial difficulties and hence the whole amount was considered irrecoverable.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

At 31 December 2017

	US$'000
Neither past due nor impaired	41,257
Past due but not impaired:	
Within 1 month	1,712
1 to 2 months	715
2 to 3 months	42
Over 3 months	634
	44,360

20. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: *(continued)*

(c) *(continued)*

Receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that either had a good track record with the Group or are in negotiation with the Group over the amounts or terms of repayment. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(d) The Group entered into a trade receivable factoring arrangement (the "**Arrangement**") and transferred certain trade receivables from a designated customer to a bank. Under the Arrangement, the Group will not be required to reimburse the bank for loss of interest if the trade debtor has late or default of payments. Since the trade receivables factored to the bank are non-recourse, the Group has transferred the significant risks and rewards relating to these receivables, the factored trade receivables met the criteria of derecognition. Therefore, the Group derecognised the full carrying amount of the trade receivables in these financial statements.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	US$'000	US$'000
Prepayments	**1,058**	1,925
Deposits and other receivables	**6,293**	8,106
Tax reserve certificates (note)	**3,147**	–
	10,498	10,031
Portion classified as current assets	**(8,694)**	(6,491)
Non-current portion	**1,804**	3,540

Note: Tax reserve certificates of the Group as at 31 December 2018 amounting to HK$24,550,000 (equivalent to approximately US$3,147,000) are tax reserve certificates purchased from the Inland Revenue Department of Hong Kong (the "**IRD**"). During the year, the IRD issued notices of assessment to the Group for the years of assessment 2015/2016 to 2016/2017 following queries in connection with the offshore claim position of a subsidiary. The Group has lodged an objection against these tax assessments and has applied to hold over the tax demanded. The IRD has agreed to the holdover of the additional tax demanded, subject to the purchase of tax reserve certificates. The purchase of tax reserve certificates does not prejudice the Group's tax position and in the opinion of the directors of the Company, adequate tax provision has been made in these financial statements.

22. CASH AND BANK BALANCES

	2018 US$'000	2017 US$'000
Cash and bank balances other than time deposits	**56,657**	59,990
Time deposits	**7,115**	11,331
Cash and bank balances	**63,772**	71,321

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between 14 days and 12 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(b) At 31 December 2018, cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to US$12,948,000 (2017: US$20,416,000), of which US$12,072,000 (2017: US$14,005,000) were kept or deposited in banks in Mainland China. The RMB is not freely convertible into other currencies in Mainland China. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

Trade and bills payables are unsecured, interest-free, and are normally settled on 45 to 60 days terms.

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 US$'000	2017 US$'000
Within 1 month	**15,097**	18,058
1 to 2 months	**3,339**	3,703
2 to 3 months	**215**	854
Over 3 months	**414**	732
	19,065	23,347

24. OTHER PAYABLES AND ACCRUALS

	Notes	2018 US$'000	2017 US$'000
Accruals		**13,047**	18,727
Other payables	(a)	**4,246**	4,197
Receipts in advance		**–**	283
Contract liabilities	(b)	**572**	–
		17,865	23,207

Notes:

(a) Other payables are non-interest-bearing and have an average term of two months.

(b) Contract liabilities represented customers' deposits received to deliver sport bags, handbags and luggage bags.

25. DEFERRED TAX

The components of deferred tax assets and liabilities and their movements during the year are as follows:

	Arising from				
	Depreciation allowance in excess of related depreciation US$'000	Defined benefit obligations US$'000	Impairment of assets US$'000	Unrealised profit or loss US$'000	Net deferred tax assets/ (liabilities) US$'000
At 1 January 2017	(36)	141	2	151	258
Deferred tax credited/(charged) to profit or loss during the year (note 12)	(32)	1	–	(79)	(110)
Deferred tax credited to other comprehensive income	–	29	–	–	29
Exchange realignment	1	16	–	1	18
At 31 December 2017 and 1 January 2018	(67)	187	2	73	195
Deferred tax credited/(charged) to profit or loss during the year (note 12)	42	(1)	–	681	722
Deferred tax charged to other comprehensive income	–	(48)	–	–	(48)
Exchange realignment	(2)	(5)	–	(30)	(37)
At 31 December 2018	(27)	133	2	724	832

25. DEFERRED TAX *(continued)*

Notes:

(a) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised amounted to approximately US$10,890,000 (2017: US$8,871,000) as at 31 December 2018.

(b) There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. DEFINED BENEFIT OBLIGATIONS

PEL, a subsidiary incorporated in Taiwan, has adopted a defined benefit pension plan (the "**Plan**"), covering substantially all employees recruited by PEL before the implementation of the Labour Pension Act of Taiwan on 1 July 2005. The defined benefit pension plan requires contributions to be made to separately administered funds.

26. DEFINED BENEFIT OBLIGATIONS *(continued)*

(a) The movements in the defined benefit obligations and the fair value of plan assets during the year are as follows:

	2018			2017		
	Defined benefit obligations US$'000	Fair value of plan assets US$'000	Net benefit liability US$'000	Defined benefit obligations US$'000	Fair value of plan assets US$'000	Net benefit liability US$'000
At 1 January	1,618	(514)	1,104	1,278	(444)	834
Pension cost charged/(credited) to profit or loss:						
Current service cost	6	–	6	9	–	9
Interest cost	16	(5)	11	17	(6)	11
	22	(5)	17	26	(6)	20
Remeasurement losses/(gains) in other comprehensive income:						
Return on plan assets (excluding amounts included in net interest expense)	–	(15)	(15)	–	1	1
Actuarial losses arising from changes in financial assumptions	–	–	–	41	–	41
Actuarial losses/(gains) arising from experience adjustments	(273)	–	(273)	130	–	130
	(273)	(15)	(288)	171	1	172
Contributions from the employer	–	(17)	(17)	–	(16)	(16)
Exchange realignment	(46)	17	(29)	143	(49)	94
At 31 December	1,321	(534)	787	1,618	(514)	1,104

26. DEFINED BENEFIT OBLIGATIONS *(continued)*

(b) An analysis of the fair value of each category of the plan assets as at the end of the reporting period is as follows:

	2018 US$'000	2017 US$'000
Equity investments	314	276
Debt instruments	75	88
Cash and cash equivalents	44	93
Others	101	57
	534	514

(c) Principal assumptions

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at the end of the reporting period by ClientView Management Consulting Co., Ltd, an independent professionally qualified actuary using the projected unit credit method. The material actuarial assumptions used in determining the defined benefit obligations for the Group's defined benefit plan are as follows:

	2018	2017
Discount rate	1.00%	1.00%
Expected rate of salary increase	3.00%	3.00%

A quantitative sensitivity analysis for the effect of changes in the discount rate and the expected rate of salary increase on the net defined benefits obligations as at the end of the reporting period is as follows:

	Increase in rate %	Increase/ (decrease) in net defined benefits obligations US$'000	Decrease in rate %	Increase/ (decrease) in net defined benefits obligations US$'000
At 31 December 2018				
Discount rate	0.25	(34)	0.25	35
Expected rate of salary increase	0.25	35	0.25	(33)
At 31 December 2017				
Discount rate	0.25	(41)	0.25	43
Expected rate of salary increase	0.25	42	0.25	(40)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

At 31 December 2018, the expected contribution to be made within the next 12 months out of the defined benefit obligations was US$27,000 (2017: US$32,000).

27. SHARE CAPITAL

	2018	2017
Shares		
Authorised (notes (a) and (b)):		
–1,000,000 ordinary shares of US$1 each	**N/A**	US$1,000,000
–100,000,000,000 ordinary shares of HK$0.01 each	**HK$1,000,000,000**	N/A

	2018 US$'000	2017 US$'000
Issued and fully paid:		
–1,000,000 ordinary shares of US$1 each	**N/A**	1,000
–1,120,000,000 ordinary shares of HK$0.01 each	**1,436**	N/A
	1,436	1,000

A summary of movements in issued share capital of the Company during the years ended 31 December 2018 and 2017 is as follows:

	Notes	Number of ordinary shares in issue US$1 each	Number of ordinary shares in issue HK$0.01 each	Issued capital US$'000	Share premium account US$'000
Issued and fully paid:					
At 1 January 2017, 31 December 2017 and 1 January 2018		1,000,000	–	1,000	–
Issuance of new shares on 19 June 2018	(b)	–	780,000,000	1,000	–
Repurchase and cancellation of shares on 19 June 2018	(b)	(1,000,000)	–	(1,000)	–
Issue of new shares pursuant to a capitalisation issue in connection with the Global Offering	(c)	–	60,000,000	77	(77)
Issue of new shares pursuant to the Global Offering	(d)	–	280,000,000	359	31,790
Expenses incurred in connection with the Global Offering	(d)	–	–	–	(3,080)
At 31 December 2018		–	1,120,000,000	1,436	28,633

Notes:

(a) On 19 June 2018, the authorised share capital of the Company was increased by HK$1,000,000,000 divided by the creation of 100,000,000,000 ordinary shares of HK$0.01 each, ranking pari passu in all respects with the then existing ordinary shares of US$1 each. Immediately following such increase, the authorised share capital of the Company comprised US$1,000,000 divided into 1,000,000 ordinary shares of US$1 each and HK$1,000,000,000 divided into 100,000,000,000 ordinary shares of HK$0.01 each.

27. SHARE CAPITAL *(continued)*

(b) On 19 June 2018, the Company allotted and issued 780,000,000 ordinary shares of HK$0.01 each to its then shareholders at par value which were used for the repurchase on the same day of 1,000,000 ordinary shares of US$1 each from its then shareholders with no consideration received or transferred.

Following the said repurchase, all authorised but unissued share capital of the Company with par value of US$1 each was diminished by cancellation of all the unissued share capital of the Company with par value of US$1 each in the share capital of the Company. After such cancellation, the authorised share capital of the Company was HK$1,000,000,000 divided into 100,000,000,000 ordinary shares of HK$0.01 each.

(c) Pursuant to written resolutions passed by the shareholders of the Company on 19 June 2018, the directors of the Company were authorised to capitalise an aggregate amount of HK$600,000 (equivalent to approximately US$77,000) standing to the credit of the share premium account of the Company as a result of the Global Offering and to appropriate such amount as capital to pay up in full at par 60,000,000 shares of HK$0.01 each for allotment and issuance to the persons whose names appear on the register of members of the Company immediately prior to the listing of the Company's shares on the Stock Exchange, each ranking pari passu in all respects with the then existing issued shares (the "**Capitalisation Issue**"). The Capitalisation Issue was completed on 12 July 2018.

(d) On 12 July 2018, 280,000,000 ordinary shares of HK$0.01 each were issued under the Global Offering in connection with the listing of the shares of the Company on the Stock Exchange at a subscription price of HK$0.89 per share. The proceeds from the issue of new shares, before issuance expenses of US$3,080,000, amounted to HK$249,200,000 (equivalent to approximately US$32,149,000), of which HK$2,800,000 (equivalent to approximately US$359,000) and HK$246,400,000 (equivalent to approximately US$31,790,000) were credited to issued share capital and share premium account of the Company, respectively.

28. SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a resolution passed on 19 June 2018. The purpose of the Share Option Scheme is to give the eligible persons an opportunity to have a personal stake in the Company and help motivate eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The Share Option Scheme remain in force for a period of ten years commencing on 13 July 2018 (the date of listing of the shares of the Company on the Main Board of the Stock Exchange) and shall expire on 12 July 2028. The board of directors of the Company may grant options to eligible persons to subscribe for shares in the Company subject to the terms of the Share Option Scheme.

The total number of shares in respect of which options may be granted at any time under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 13 July 2018, without prior approval from the Company's shareholders. Further, the maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible person in the Share Option Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

28. SHARE OPTION SCHEME *(continued)*

Options granted to a substantial shareholder or an independent non-executive director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up no later than 28 days after the day on which the offer was made, upon payment of HK$1 by the grantee. Options may be exercised at any time during a period to be determined by the directors which shall not be later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

The exercise price of the share options shall be a price determined by the board of directors of the Company and notified to an eligible person and shall be at least the highest of (i) the nominal value of a share of the Company; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the offer date; and (iii) the average of the closing prices of the Company's shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the offer date.

Since the Share Option Scheme came into effect on 13 July 2018, no share options were granted, and hence there was no outstanding option under the Share Option Scheme as at 31 December 2018.

29. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The capital reserve represents shareholders' additional contributions in prior years.

(c) The statutory reserves are reserves set aside in accordance with (i) the Taiwan Companies Ordinance applicable to the Group's subsidiary established in Taiwan; and (ii) the Macao Commercial Code applicable to the Group's subsidiary established in Macau. None of the Group's statutory reserves was distributable in the form of cash dividend.

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Due to a director US$'000	Dividend payable US$'000
At 1 January 2017	3,211	–
Changes from financing cash flows	(3,211)	–
Interim 2017 dividend	–	35,000
At 31 December 2017 and 1 January 2018	–	35,000
Changes from financing cash flows	–	(35,000)
At 31 December 2018	–	–

31. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments as at the end of the reporting period:

	2018 US$'000	2017 US$'000
Contracted, but not provided for in respect of:		
Acquisition of property, plant and equipment	–	1,732

(b) Operating lease commitments

The Group leases certain of its offices premises, factories and warehouses under operating lease arrangements, with the leases negotiated with terms ranging from two to eight years (2017: one to eight years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 US$'000	2017 US$'000
Within one year	1,685	2,021
In the second to fifth years, inclusive	2,901	2,625
After five years	1,112	1,713
	5,698	6,359

32. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year:

	Notes	2018 US$'000	2017 US$'000
A director of the Company			
Rental expenses	(i)	**1**	10
A company beneficially owned by certain directors of the Company			
Rental expenses*	(i)	**230**	175
Subsidiaries of a company with significant influence over the Company			
Subcontracting service income	(ii)	**–**	122
Management and consultancy service fees paid	(iii)	**88**	93
Public facility maintenance expenses*	(iv)	**157**	157
Utility expenses and other charges*	(iv)	**478**	469
Shuttle bus service expenses*	(i)	**391**	346
Building management expenses*	(ii)	**147**	139

Notes:

(i) These transactions were determined with reference to prevailing market rates.

(ii) These transactions were carried out at mutually agreed prices.

(iii) The management and consultancy service fees were determined with reference to market salaries of personnel with similar background and experience in Taiwan.

(iv) The public facility maintenance expenses and utility expenses and other charges were reimbursed to the related party on the actual cost basis.

* These transactions also constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(b) The compensation of the key management personnel of the Group is summarised as follows:

	2018 US$'000	2017 US$'000
Short term employee benefits	**1,138**	1,038
Discretionary and performance related bonuses	**686**	3,418
Defined contribution schemes contributions	**16**	22
Total compensation paid and payable to key management personnel	**1,840**	4,478

33. FINANCIAL INSTRUMENTS BY CATEGORY

Other than an equity investment being designated as a financial asset at fair value through other comprehensive income (2017: available-for-sale financial asset), all other financial assets and liabilities of the Group as at 31 December 2018 are classified as financial assets and liablities at amortised cost, respectively (2017: loans and receivables, and financial liablities at amortised cost, respectively).

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The directors of the Company consider the fair values of financial assets and liabilities which are due to be received or settled within one year approximate to their carrying amounts largely due to the short term maturities of these instruments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments that are carried at fair value on the consolidated statement of financial position:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
At 31 December 2018				
Equity investment at fair value through other comprehensive income	–	–	2	2

The Group did not have any financial instruments measured at fair value as at 31 December 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities (2017: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than equity investment at fair value through other comprehensive income, comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are (a) interest rate risks, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has minimal use of derivatives and other instruments for trading purposes. The board of directors review and agree policies for managing each of these risks and they are summarised as follows:

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at banks with floating interest rates.

If interest rates had been 100 basis points higher (lower) and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2018 would have increased (decreased) by US$607,000 (2017: US$467,000).

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China and Vietnam, the Group's consolidated statement of financial position can be affected significantly by movements in the RMB/US$ and Vietnamese Dong ("**VND**")/US$ exchange rates.

The following table demonstrates the sensitivity at the end of the reporting period to reasonably possible changes in the RMB/US$ and VND/US$ exchange rates, with all other variables held constant, of the Group's profit before tax.

	Increase/(decrease) in profit before tax	
	2018	2017
	US$'000	US$'000
If RMB weakens against the US$ by 5%	**(69)**	(216)
If RMB strengthens against the US$ by 5%	**69**	216
If VND weakens against the US$ by 5%	**262**	282
If VND strengthens against the US$ by 5%	**(262)**	(282)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Credit risk

Maximum exposure and year-end staging as at 31 December 2018

At the end of the reporting period, six (2017: five) customers of the Group accounted for approximately 46% (2017: 63%) of the Group's trade debtors.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the counterparty has a good history of repayment, the Group's exposure to bad debts is not significant.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	Total
	US$'000	US$'000	US$'000
Trade receivables*	–	35,666	35,666
Bills receivable	–#	–	–#
Financial assets included in prepayments, deposits and other receivables – Normal**	6,293	–	6,293
Cash and bank balances – Not yet past due	63,772	–	63,772
	70,065	35,666	105,731

\# Less than US$500.

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Credit risk *(continued)*

Maximum exposure as at 31 December 2017

The carrying amount of trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the trade receivables. At the end of the reporting period, the top five customers of the Group accounted for approximately 63% of the Group's trade debtors.

The Group performs ongoing credit evaluations of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade receivables. In this regard, the directors of the Company consider that the Group's credit risk is minimal. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

With respect to credit risk arising from other financial assets of the Group, comprising bank balances, the Group's exposure to credit risk arises from default of other parties, with a maximum exposure being equal to the carrying amounts of these instruments.

(d) Liquidity risk

The Group's objective is to maintain a balance between maintaining an adequate level of cash and cash equivalents to finance the Group's operations and investing surplus cash for higher return.

Financial liabilities of the Group included in current liabilities as at the end of the reporting period either had no fixed terms of repayment or were due for repayment within one year. The contractual undiscounted payments of these financial liabilities approximate to their carrying amounts.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is all repayable on demand or within 1 year.

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its shareholders or issue new shares to increase capital. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

36. EVENTS AFTER THE REPORTING PERIOD

The following significant events occurred subsequent to the end of the reporting period:

(i) In January 2019, the Group ceased the operation of a production plant located in Mainland China due to a change in business plan. The costs for the closure of the factory, including compensation to relevant employees and the landlord of the production plant, are estimated to be RMB9,675,000 (equivalent to approximately US$1,464,000).

(ii) In January 2019, the Group entered into several lease agreements with an independent third party, pursuant to which the Group shall lease certain land in Phnom Penh, Cambodia with lease terms of 10 years for the expansion of the Group's production facilities in Cambodia.

37. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation and disclosures.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company as at the end of the reporting period is as follows:

	2018 US$'000	2017 US$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**14,114**	14,114
Prepayments	**104**	–
Total non-current assets	**14,218**	14,114
CURRENT ASSETS		
Prepayments, deposits and other receivables	**334**	17
Due from subsidiaries	**34,316**	79,229
Cash and bank balances	**33,661**	2,651
Total current assets	**68,311**	81,897
CURRENT LIABILITIES		
Other payables and accruals	**702**	2,992
Dividend payable	**–**	35,000
Total current liabilities	**702**	37,992
NET CURRENT ASSETS	**67,609**	43,905
Net assets	**81,827**	58,019
EQUITY		
Issued capital	**1,436**	1,000
Reserves (note)	**80,391**	57,019
Total equity	**81,827**	58,019

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note: A summary of the Company's reserves is as follows:

	Share premium account US$'000	Retained profits US$'000	Total US$'000
At 1 January 2017	–	54,756	54,756
Profit for the year and total comprehensive income for the year	–	37,263	37,263
Interim 2017 dividend	–	(35,000)	(35,000)
At 31 December 2017 and 1 January 2018	–	57,019	57,019
Loss for the year and total comprehensive loss for the year	–	(5,261)	(5,261)
Issue of new shares pursuant to the Capitalisation Issue in connection with the Global Offering	(77)	–	(77)
Issue of shares pursuant to the Global Offering	31,790	–	31,790
Expenses incurred in connection with the Global Offering	(3,080)	–	(3,080)
At 31 December 2018	28,633	51,758	80,391

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

Four-Year Financial Summary

A summary of the consolidated results and of the assets, liabilities and equity of the Group for the last four financial years is as follows:

RESULTS

	Year ended 31 December			
	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000
Revenue	**221,849**	258,498	220,457	225,342
Profit before tax	**9,067**	25,630	22,535	17,457
Income tax	**(1,697)**	(4,548)	(3,940)	(3,639)
Profit for the year	**7,370**	21,082	18,595	13,818

ASSETS, LIABILITIES AND EQUITY

	At 31 December			
	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000
TOTAL ASSETS	**190,072**	199,941	172,350	165,415
TOTAL LIABILITIES	**47,471**	91,616	52,173	52,488
NET ASSETS	**142,601**	108,325	120,177	112,927
TOTAL EQUITY	**142,601**	108,325	120,177	112,927

Note: The summary of the consolidated results and of the assets, liabilities and equity of the Group for the years ended 31 December 2015, 2016 and 2017 are extracted from the Company's prospectus dated 29 June 2018.

No financial information of the Group for the year ended 31 December 2014 has previously been published.