晶苑國際集團有限公司*
CRYSTAL INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability and registered by way of continuation in the Cayman Islands)
(於百慕達註冊成立的有限公司並以存續方式於開曼群島註冊)
Stock code 股份代號：2232

ANNUAL REPORT 年度報告 2019

* For identification purposes only 僅供識別

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LO Lok Fung Kenneth *(Chairman)*
Mrs. LO CHOY Yuk Ching Yvonne *(Vice Chairman)*
Mr. LO Ching Leung Andrew *(Chief Executive Officer)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah

Independent Non-executive Directors

Mr. GRIFFITHS Anthony Nigel Clifton
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin

BOARD COMMITTEES

Audit Committee

Mr. GRIFFITHS Anthony Nigel Clifton *(Chairman)*
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki

Remuneration Committee

Mr. MAK Wing Sum Alvin *(Chairman)*
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. LO Lok Fung Kenneth

Nomination Committee

Mr. LO Lok Fung Kenneth *(Chairman)*
Mr. GRIFFITHS Anthony Nigel Clifton
Mr. MAK Wing Sum Alvin

Corporate Development Committee

Mr. LO Ching Leung Andrew *(Chairman)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin
Mr. LI Wai Kwan

AUTHORIZED REPRESENTATIVES

Mr. LO Ching Leung Andrew
Mr. LI Wai Kwan

COMPANY SECRETARY

Mr. LI Wai Kwan

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3/F, Crystal Industrial Building
71 How Ming Street
Kwun Tong
Kowloon
Hong Kong

HEADQUARTERS

Crystal Industrial Building
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Kwun Tong
Kowloon
Hong Kong

REGISTERED OFFICE

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P.O. Box 309
Grand Cayman KY1-1104
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Wan Chai, Hong Kong
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Fax: 852 2865 0990
Email: hkinfo@computershare.com.hk

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
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Boundary Hill, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

LEGAL ADVISERS

Simpson Thacher & Bartlett
Maples and Calder (Hong Kong) LLP

COMPANY WEBSITE

http://www.crystalgroup.com

INVESTOR RELATIONS

ir@crystalgroup.com

STOCK CODE

2232

Financial Highlights

	For the year ended 31 December/ At 31 December	
	2019	2018
Key Financial Information (US$'000)		
Revenue	**2,427,723**	2,495,966
Cost of Sales	**1,965,033**	2,026,244
Gross Profit	**462,690**	469,722
Profit for the year	**151,904**	149,192
Earnings per share (US cents)		
— basic	**5.33**	5.24
— diluted	**5.33**	5.23
Total assets	**1,816,168**	1,839,952
Total liabilities	**728,150**	853,513
Total equity	**1,088,018**	986,439
Net debt (note a)	**10,601**	132,086
Cash and cash equivalents	**260,211**	299,891
Key Financial Ratios		
Gross profit margin (%)	**19.1%**	18.8%
Net profit margin (%)	**6.3%**	6.0%
Net debt to equity ratio (%) (note b)	**1.0%**	13.4%
Cash conversion cycle (days) (note c)	**60**	60

Notes:

(a) Net debt represents total interest-bearing bank borrowings less bank balances and cash.

(b) Net debt to equity ratio represents total interest-bearing bank borrowings less bank balances and cash, divided by total equity.

(c) Cash conversion cycle represents inventory turnover days plus trade and bills receivables turnover days, less trade and bills payables turnover days.

Chairman's Statement

On behalf of the Board of Crystal International Group Limited, I am pleased to present the annual results of the Group for the year ended 31 December 2019.

2019 witnessed continuing trade tensions between USA and the PRC, which brought significant uncertainties to the global economy. To actively manage the situation, the Group decided to increase the pace of the program of reallocation of capacity, from the PRC to non-PRC production bases, in the first half of 2019. Despite the negative impact on net margin in 2019, I believed it would consolidate the capacity of the Group's multi-country manufacturing platform, for the benefit of economies of scale.

Following the acquisition of Vista in December 2016, the Group further expanded its product portfolio into Sportswear and outdoor apparel. After two years of business integration, recently, the Group has started to supply a new customer, a famous international sportswear brand, which enables the Group to explore similar opportunities for current customers and product categories. I believe Sportswear and outdoor apparel will be a key driver for future revenue growth.

In addition to fostering business development, the Group adheres to sustainability for the betterment of society and the environment, and has positioned sustainability as a cornerstone of its caring "For The Greater Good" corporate culture. Besides, the Group focus on strengthening corporate governance and improving standards, we are nurturing talented senior management, to ensure greater professionalism. The Group was honoured with the Corporate Governance Excellence Award (newly listed companies) and the Sustainability Excellence Award which were jointly presented by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of the Hong Kong Baptist University. The Group was also honoured with the ListCo Excellence Award 2019 which was jointly promoted by am730, ifeng.com and PR Asia. Those awards underscore the recognition of the Group's efforts in corporate governance and sustainability in the eyes of the business community.

As I stated in my last annual report, 2019 was to be a year of breakthrough for the Group, and I would like to express my gratitude to the Directors for their continuing efforts and to thank all the management and staff for their dedication, for supporting the Group to seek opportunities for positive change and pursuing breakthroughs in 2019. The awards won this year are definitely a strong encouragement for our team to continue to strive for excellence.

Looking forward, the Group will continue to optimise and expand its manufacturing platform and explore new customers for the sportswear and outdoor apparel business, creating synergies to generate higher revenue. The Group is committed to realise an enhanced development plan in a continuous move towards our vision "becoming the world's no. 1 apparel manufacturer".

COVID-19 has spread rapidly since the end of 2019 creating a rapidly changing situation worldwide that will worsen before it recedes. We have moved quickly to take all actions that we can to minimise its disruptive impact on our staff and our business. The spread of the virus is already having a marked, adverse impact on world trade and we are monitoring the situation closely. We shall continue to do all we can to protect our staff while assisting our customers wherever and in whatever ways are available to us.

Lo Lok Fung Kenneth
Chairman of the Board
Hong Kong, 19 March 2020

Management Discussion and Analysis

MARKET OVERVIEW

Trade tensions and commercial disputes between the USA and the PRC, that started in the second half of 2018, adversely impacted the Group's operations in 2019. While trade disputes continue between the USA and the PRC, Vietnam has benefited from its membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which came into effect in January 2019. In addition, Vietnam signed a free trade agreement with the European Union on 30 June 2019, leading towards the potential elimination of nearly all tariffs, over the next decade, on products traded between the two parties. The Group believes these agreements will benefit exports from Vietnam and boost the local economy, including the development of its manufacturing industry.

BUSINESS REVIEW

Reallocation Program in 2019

During 2019, the growing uncertainties arising from the trade tensions mentioned above led to customers increasing their demands for the Group's production to be moved from the PRC to non-PRC production bases. In a controlled response, the Group has reviewed its multi-country manufacturing platform and implemented the Reallocation Program. Under the Reallocation Program, the Group has decided to rationalise its base in the PRC, and to increase production capacity in its non-PRC production bases, particularly in Vietnam. While the Group believes such reallocation will bring revenue and cost benefits to the Group in the longer term, there has inevitably been an adverse impact on the Group's revenue and profitability in 2019.

The reduced capacity in the PRC under the Reallocation Program caused the Group's revenue for the year ended 31 December 2019, to decline slightly to US$2,428 million (2018: US$2,496 million). Gross profit for the year ended 31 December 2019 was US$463 million (2018: US$470 million), representing a gross profit margin of 19.1% (2018: 18.8%). Net profit for year ended 31 December 2019 was US$152 million (2018: US$149 million), representing a net margin of 6.3% (2018: 6.0%). The net profit is stated after charging one-off costs of approximately US$14 million in relation to the Reallocation Program.

The Board appreciates the continuing support of shareholders and has resolved to propose a final dividend of HK8.5 cents per ordinary share. Taken together with the interim dividend of HK4 cents per ordinary share, total dividend for the year ended 31 December 2019 will amount to HK12.5 cents, (2018: HK12.4 cents), representing a distribution of 30% of the Group's net profit for the year.

Multi-country Manufacturing Platform

The Group implemented active strategies to cope with the adverse operating environment resulting from the trade tensions between the USA and the PRC. The revenue contribution from the Group's production in the PRC shipping to the US market decreased significantly from approximately 14% in 2018 to about 6% in the second half of 2019.

The Group's multi-country manufacturing platform spans five countries, namely Vietnam, the PRC, Cambodia, Bangladesh and Sri Lanka. For the year ended 31 December 2019, 74% of the Group's production capacity was located outside the PRC, in terms of revenue contribution (2018: 66%). Since venturing into Vietnam in 2003, the Group has become one of the largest producers of apparel, in terms of export volume, there. At present, Vietnam continues to be the largest production base for the Group.

FINANCIAL REVIEW

Revenues

In view of the growing uncertainties arising from trade tensions between the USA and the PRC, the Group has continued to implement the Reallocation Program mentioned previously. Consequently, the Group's revenue declined slightly in 2019.

The following table gives the Group's revenue for 2019 compared with 2018, by product category, each expressed as an absolute amount and as a percentage of total revenue.

	For the Year ended 31 December			
	2019		2018	
	US$'000	***%***	*US$'000*	*%*
Lifestyle wear	**941,618**	**38.8%**	953,419	38.2%
Denim	**583,342**	**24.0%**	630,349	25.2%
Intimate	**427,664**	**17.6%**	410,896	16.5%
Sportswear and outdoor apparel	**244,189**	**10.1%**	239,359	9.6%
Sweater	**223,201**	**9.2%**	251,677	10.1%
Others (note)	**7,709**	**0.3%**	10,266	0.4%
Total Revenue	**2,427,723**	**100.0%**	2,495,966	100.0%

Note: Includes warehouse services income and income from trading of seconds.

The revenue decline in Lifestyle wear stemmed from decreasing sales in department store retailers. The decrease in revenue for Denim resulted directly from the adverse impact of the intensifying trade tensions between the USA and the PRC. Revenue growth for Intimate was driven by an increase in demand from our key customers. The increase in revenue for Sportswear and outdoor apparel arose mainly from a new customer. The decreased revenue for Sweater was due to the revision of our production capacity that made it more efficient.

The Group's sales analysed by geographic region based on port of discharge, were:

	For the Year ended 31 December			
	2019		2018	
	US$'000	***%***	*US$'000*	*%*
Asia Pacific (note a)	**968,345**	**39.9%**	986,382	39.5%
United States	**905,674**	**37.3%**	942,360	37.8%
Europe (note b)	**440,932**	**18.2%**	458,920	18.4%
Other countries/regions	**112,772**	**4.6%**	108,304	4.3%
Total Revenue	**2,427,723**	**100.0%**	2,495,966	100.0%

Notes:

(a) Asia Pacific primarily includes Hong Kong, Japan, the PRC and South Korea.

(b) Europe primarily includes Belgium, France, Germany, the Netherlands, and the U.K..

The Group's sales analysed by principal country of production, were:

	For the Year ended 31 December			
	2019		2018	
	US$'000	***%***	*US$'000*	*%*
Non-PRC	**1,805,207**	**74.4%**	1,640,345	65.7%
PRC	**622,516**	**25.6%**	855,621	34.3%
Total Revenue	**2,427,723**	**100.0%**	2,495,966	100.0%

The above shows the effect of the Group's policy of migrating production to lower cost countries.

Cost of Sales, Gross Profit and Gross Profit Margin

	For the Year ended 31 December			
	2019		2018	
	Gross Profit	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	US$'000	***%***	*US$'000*	*%*
Lifestyle wear	**185,520**	**19.7%**	180,232	18.9%
Denim	**101,024**	**17.3%**	112,420	17.8%
Intimate	**88,384**	**20.7%**	84,279	20.5%
Sportswear and outdoor apparel	**45,812**	**18.8%**	42,263	17.7%
Sweater	**36,304**	**16.3%**	42,939	17.1%
Others	**5,646**	**73.2%**	7,589	73.9%
Total Gross Profit	**462,690**	**19.1%**	469,722	18.8%

The Lifestyle wear gross profit margin remained stable at 19.7% in 2019, compared with 18.9% in 2018.

The slight decline in gross profit margin for Denim arose from the reallocation of production from existing mature production bases in the PRC to newly established production units outside the PRC that are now operating at the required level of efficiency.

The Intimate gross profit margin remained relatively stable at 20.7% in 2019, compared with 20.5% in 2018.

The gross profit margin of Sportswear and outdoor apparel increased due to the Group's strategy to reduce non-core customers.

For Sweater, the decrease in gross profit margin resulted from the revision of production capacity.

Other Expenses and Finance Costs

Selling and distribution expenses have been tightly controlled during the year and amounted to 1.1% of revenue compared with 1.7% in 2018.

The administrative and other expenses for the year included the one-off costs of US$14 million incurred to reduce production capacity in the PRC. Without this charge, expenses would have equated to 10.1% of revenue compared with 10.2% in 2018.

The effective interest rates of the Group's variable-rate borrowings ranged from 2.30% to 5.20% (2018: 2.03% to 5.13%) per annum. Finance costs amounted to 0.7% of revenue in both 2019 and 2018.

Net Profit

The Group is pleased to report that despite the challenges faced throughout the year, a net profit of US$152 million was achieved for the year ended 31 December 2019. Net profit as a percentage of revenue increased from 6.0% in 2018 to 6.3% in 2019, reflecting the effect of the positive steps taken by the Group to contend with the difficult trade environment.

Capital Management

The consolidated financial position of the Group remained sound throughout the year. Positive operating cash flow of US$313 million (2018: US$231 million) contributed to cash and cash equivalents of US$260 million at 31 December 2019, compared with US$300 million at 31 December 2018. Cash and cash equivalents were mainly denominated in HK$ and US$. Bank borrowings, mainly denominated in HK$ and US$, have been reduced from US$434 million at 31 December 2018 to US$277 million at 31 December 2019. Bank borrowings of US$277 million at 31 December 2019 contained repayable on demand clauses, of which US$155 million could be repayable within one year, US$112 million in more than one year but not more than two years, and US$10 million in more than two years but not more than five years.

The gearing ratio (total interest-bearing bank borrowings, less bank balances and cash, divided by total equity) at 31 December 2019 was a healthy 1% compared with 13.4% at 31 December 2018. Close attention is given by the management to working capital, and as a result, the cash conversion cycle remained stable at 60 days for both 2019 and 2018. Average turnover of trade and bills receivables remained stable at 42 days for both 2019 and 2018. Inventory turnover averaged 51 days in 2019, compared with 48 days in 2018. Trade and bills payable turnover averaged 33 days in 2019, compared with 30 days in 2018.

The Group is continuing to expand its production capacity outside the PRC. In 2019, capital expenditure amounted to US$111 million, of which 6% was incurred in the PRC, compared with US$177 million in 2018, of which 18% was incurred in the PRC. Capital commitments at 31 December 2019 were US$42 million compared with US$62 million at 31 December 2018.

Foreign currency exchange contracts are used to manage foreign currency exposure. The Group's policy is to monitor its foreign currency exposure and use foreign currency exchange contracts as appropriate, to minimise its foreign currency risks.

Use of Proceeds from the Initial Public Offering

The net proceeds have been applied in accordance with the allocation set out in the announcement made by the Company on 13 March 2019 as follows:

- US$259 million (HK$2,019 million) for capital expenditure to increase manufacturing capacity
- US$58 million (HK$457 million) for upstream vertical integration into fabric production in Asia
- US$122 million (HK$952 million) for the repayment of Vista related loans
- US$49 million (HK$381 million) for working capital and general corporate purposes

For the period from 3 November 2017 (the listing date of the Company) to 31 December 2019, US$367 million (HK$2,872 million) has been applied:

- US$196 million (HK$1,539 million) to expand manufacturing capacity
- US$122 million (HK$952 million) to repay Vista related loans
- US$49 million (HK$381 million) to use as working capital

At 31 December 2019, unutilised net proceeds were deposited in licensed banks and these will be applied in accordance with the allocation set out in the announcement made by the Company on 13 March 2019. The Directors intend to utilise such net proceeds in the manner disclosed in the announcement made by the Company on 13 March 2019.

Pledge of Assets

At 31 December 2019, pledge of assets of the Group are set out in note 37 to the consolidated financial statements.

Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

For the year ended 31 December 2019, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures.

Significant Investments Held

For the year ended 31 December 2019, the Group had no significant investments held.

Contingent Liabilities

At 31 December 2019, the Group had no material contingent liability (2018: Nil).

Events After Reporting Period

The outbreak of COVID-19 has grown into a large-scale, multi-country epidemic during the first quarter of 2020 producing a challenging situation for all industries and society generally. The Group has assessed the overall impact of the situation on the entirety of its operations and taken all possible effective measures to limit the adverse effects of the rapidly spreading virus on people and activities. The Group is paying continuous attention to the ever-changing situation in order to respond appropriately with speed in a proactive manner. The outbreak of COVID-19 is expected to have negative impact on the global economic environments as well as the Group's revenue and profit in 2020; however, the Group is not able to estimate the financial effect at the date of this report.

Employment, Training and Development

The Group employed about 80,000 people at 31 December 2019. Total staff costs, including administrative and management staff, for the year ended 31 December 2019 equated to 24.7% of revenue, compared with 24.8% in 2018. The Group remunerates its staff according to their performance, qualifications and industry practices, and conducts regular reviews of its remuneration policy. Employees may receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. The Group also offers rewards or other incentives to motivate the personal growth and career development of employees, such as ongoing opportunities for training to enhance their technical and product knowledge, as well as their knowledge of industry quality standards. Each new employee of the Group is required to attend an introductory course, while there are also various types of training courses available to all employees of the Group.

OUTLOOK AND PROSPECTS

2019 has been a transitional year for the Group's operations in terms of the strategic relocation of the Group's production bases. The Group has taken active measures to manage the operational challenges arising from the trade tensions between the USA and the PRC through its multi-country manufacturing platform. With a relatively low level of the PRC production shipping to the US market, any outcome from the trade negotiations between the USA and the PRC governments is not expected to have further material impact on the Group's operation. Looking ahead, the Group will continue to maintain and operate a diversified manufacturing platform in its existing production bases, with considered expansion of the non-PRC production bases. As such, capital expenditure for the coming year is expected to be at a level similar to 2019.

At the time of preparing this analysis, the outbreak of COVID-19 is evolving and growing into a large-scale, multi-country epidemic, posting challenges to the operating environment for every industry especially in the first quarter of 2020. While the Group has been actively managing its operations, the epidemic is still dynamic and it will inevitably cast a shadow over the business of the Group. The Group will continue to closely monitor the situation and take all possible effective measures to respond appropriately with speed in a proactive manner. The outbreak of COVID-19 is expected to have negative impact on the global economic environments as well as the Group's revenue and profit in 2020; however, the Group is not able to estimate the financial effect at the date of this report.

Diversified Product Mix — Sportswear and Outdoor Apparel to Fuel Growth

It is the Group's strategy to continuously enhance its product mix, while maintaining its diversity of product categories. The Group continues to believe in the potential of the sportswear market, especially in athleisure products.

Following the acquisition of Vista in 2016, the Group has continued to meet the growing demand from key customers for its Sportswear and outdoor apparel. In response to the growing demand, the Group has been actively focusing its resources to serve its existing key customers through strategic client reshuffling. More recently, the Group has started to supply a new customer, a famous international sportswear brand, and has been cultivating a sound strategic relationship with the brand. The Group believes the reengineered customer portfolio in the Sportswear and outdoor apparel area will provide a solid foundation to fuel the Group's business growth in the future. In view of the strong demand from end consumers in the sportswear market, the Group will continue to plan for capacity expansion, the strategic focus being on its Sportswear and outdoor apparel activities with its key customers. At the same time, the Group will continue to pursue its plan for upstream vertical integration.

The core advantage of the Group's unique diversified product category offerings, a multi-country manufacturing platform, and its strong focus on corporate sustainability lead the Group to believe it will continue to benefit from longer-term industry consolidation.

Directors and Senior Management

DIRECTORS

At 19 March 2020, the Board consisted of 9 directors, comprising 5 executive directors and 4 independent non-executive directors. The functions and duties of the Board include convening general meetings, implementing the resolutions passed at general meetings, determining strategy, business and investment plans, formulating the annual financial budget, reviewing and approving financial accounts, and formulating proposals for profit distributions as well as exercising other powers, functions and duties, as conferred by the Articles of Association.

Executive Directors

Mr. Lo Lok Fung Kenneth (羅樂風), aged 81, is the Chairman of the Board and an executive director. He is also the chairman of the Nomination Committee of the Company and a member of the Remuneration Committee. He co-founded the Group with Mrs. Yvonne Lo in 1970. Mr. Kenneth Lo has been a director since its establishment in January 1993. With over 60 years of experience in the apparel manufacturing industry, Mr. Kenneth Lo has been instrumental in developing the Group into a world leader. Mr. Kenneth Lo stepped down as the Chief Executive Officer in December 2007. As Chairman, Mr. Kenneth Lo has assumed the role of strategic thinker and change driver — he devotes his time to anticipating and identifying opportunities and risks in the industry and how they may have an impact on the Group's business. In addition, Mr. Kenneth Lo is committed to developing and driving the corporate culture, business ethics and sustainability, which are memorialised in his book "For The Greater Good — Becoming The World's No. 1 Apparel Maker", published in 2016.

Mr. Kenneth Lo received the Industrialist of the Year Award of the Federation of Hong Kong Industries in 2012 for his contribution to industrial development and to society. He won the Ernst Young Entrepreneur of the Year China Award (Hong Kong/Macau Region) in 2014 and the DHL/SCMP Hong Kong Business Award (Owner-Operator Category) in 2016.

Mr. Kenneth Lo is currently an honorary fellow of the Vocational Training Council in Hong Kong, as well as a guest professor at Yunnan University (雲南大學). He is also the honorary chairman of the CEO Club of The Hong Kong Polytechnic University, a fellow of the Hong Kong Management Association, the honorary president of the Hong Kong Woollen and Synthetic Knitting Manufacturers' Association, Limited, as well as a general committee member of the Textile Council of Hong Kong. In addition, Mr. Kenneth Lo involves in charity work and environmental protection. He has been a director and chairman of the Windshield Charitable Foundation (宏施慈善基金) since November 2001, and a director of World Green Organisation Limited since May 2013 and an honorary advisor to the Agency for Volunteer Service since September 2018.

Mr. Kenneth Lo is the husband of Mrs. Yvonne Lo, the Vice Chairman and executive director, and father of Mr. Andrew Lo, the executive director and Chief Executive Officer, and Mr. Howard Lo, a senior vice president of the Group.

Mrs. Lo Choy Yuk Ching Yvonne (羅蔡玉清), aged 75, is the Vice Chairman of the Board and an executive director. She co-founded the Group with Mr. Kenneth Lo in 1970. Mrs. Yvonne Lo has been a director since its establishment in January 1993. Since the Group's establishment, Mrs. Yvonne Lo has overseen the finance and administrative functions and has over 50 years of business management experience.

Apart from business management, Mrs. Yvonne Lo has also devoted herself to charity and social work. She established the Yuk Ching Charity Trust (玉清慈善基金) (now known as The Incorporated Trustees of Yuk Ching Charity Trust), which aims to help the education of students by, among other activities, providing financial support, and has been its donor and trustee since October 2004, and chairman since 2005. Since February 2017, Mrs. Yvonne Lo has been the Honorary Chairperson of The Hong Kong Federation of Women (香港各界婦女聯合協進會).

Mrs. Yvonne Lo is the wife of Mr. Kenneth Lo, the Chairman and executive director and mother of Mr. Andrew Lo, the executive director and Chief Executive Officer, and Mr. Howard Lo, a senior vice president of the Group.

Mr. Lo Ching Leung Andrew (羅正亮), aged 54, is the Chief Executive Officer of the Group and has been an executive director since March 1994. With around 30 years of experience in the apparel manufacturing industry, Mr. Andrew Lo is now primarily responsible for formulating and overseeing the overall development strategies and operation of the Group. He first joined the Group in 1988 and started in the production department of the sweater division and has since risen through the ranks. He served as Deputy Chief Executive Officer of the Group from 2003 to 2007, and was promoted to Chief Executive Officer of the Group in 2008. He is also chairman of the Corporate Development Committee of the Company.

Mr. Andrew Lo served as a softgoods sub-committee member of The Hong Kong Exporters' Association from 2003 to 2007, as well as a director of the Hong Kong Research Institute of Textiles and Apparel from 2010 to 2016. He has been a director of the Textile Council of Hong Kong Limited since 2014. Mr. Andrew Lo was a member of the Textiles Advisory Board from 2013 to 2018 and was a member of the Trade and Industry Advisory Board from 2017 to 2019. He has been a director of Law's Foundation Limited since 2018.

Mr. Andrew Lo was appointed a member of the 5th committee of the Chinese People's Political Consultative Conference of Huicheng District, Huizhou City (中國政治協商會議惠州市惠城區委員會第五屆委員) and a council member of the Better Hong Kong Foundation in 2012.

Mr. Andrew Lo graduated from the University of Toronto with a bachelor's degree in arts in June 1988. He is the son of Mr. Kenneth Lo, the Chairman and executive director, and Mrs. Yvonne Lo, the Vice Chairman and executive director, and brother of Mr. Howard Lo, a senior vice president of the Group.

Mr. Wong Chi Fai (王志輝), aged 60, has been an executive director of the Group since March 1994 and is mainly responsible for overseeing the Group's innovation development and productivity enhancement, supporting corporate functions and setting up strategies and governance policy. Mr. Frankie Wong joined the Group and served as the senior officer of the denim division from November 1982 and has since risen through the ranks. He then served as overseas plant manager from 1986 to 1988 and general manager of the denim division from 1988 to 1994. He was promoted to executive director of the Group in 1994 and was responsible for overseeing the lifestyle wear division until 2007 and the denim division until 2015. He is also a member of the Corporate Development Committee of the Company.

With over 30 years of experience in the apparel manufacturing industry, Mr. Frankie Wong currently serves as a member of the Board of The Hong Kong Research Institute of Textiles and Apparel Limited to which he was appointed in September 2016. He was also awarded the title of Honorary Citizen of Zhongshan City (中山市榮譽市民) in 2013 for his significant contributions to the economic and social development of the city.

Mr. Wong Sing Wah (黃星華), aged 56, has been an executive director of the Group since January 2011 and is primarily responsible for overseeing the lifestyle wear and the sweater divisions, supporting corporate functions and setting up strategies and governance policy. Mr. Dennis Wong initially joined the Group as an assistant merchandiser of the sweater division in May 1983, then serving as overseas sales manager from 1986 and later overseas operation manager until 1990. Mr. Dennis Wong re-joined the Group in June 1996 as sales manager of the lifestyle wear division, and has held various positions since then. He served as sales senior manager until March 2000, and successively as assistant general manager of the Japan operation until August 2003, deputy general manager of the Japan operation until January 2004, deputy general manager of operation until October 2004, general manager of sales and operations until June 2007 and subsequently, and the president until December 2011. He is also a member of the Corporate Development Committee of the Company.

Mr. Dennis Wong was awarded the title of "2013 Top Ten Economic Individual of Dongguan City" (2013年東莞十大經濟人物), and served as the vice chairman of the 1st supervisory committee of the Dongguan City Association of Enterprises with Foreign Investment Changping Branch (東莞市外商投資企業協會常平分會) in 2010.

Independent Non-executive Directors

Mr. Griffiths Anthony Nigel Clifton, aged 76, was appointed an independent non-executive director in September 2002. He is the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Griffiths joined Shui On Group when it acquired Harbour Engineering and Construction Co., Ltd., where he was a director, in February 1982. He held various positions in the Shui On Group including finance and executive director until 1984 and managing director of certain subsidiaries until August 1986. When Shui On Construction and Materials Ltd. (currently known as SOCAM Development Limited) listed on the Stock Exchange in 1997 (stock code: 0983), he joined its board as an independent non-executive director. He was appointed the chairman of its audit committee and remuneration committee in 1998 and 2002 respectively, and continued in these capacities until May 2010 when he stepped down. From September 1986, Mr. Griffiths worked as the managing director at GML Consulting Ltd., a company engaged in general management and human resources consulting, until August 2002. He has served as an independent non-executive director of Manulife Provident Funds Trust Company Limited since May 2000 and was re-designated the independent director in December 2000. Mr. Griffiths has been a Fellow of The Hong Kong Institute of Directors since 2000. Mr. Griffiths has also been a member and Fellow of The Institute of Chartered Accountants in England and Wales since 1967 and a member of the executive committee of the Hong Kong Coalition of Service Industries from 1991 to 2002, as well as a vice chairman from 1997 to 2002.

Mr. Tse Man Bun Benny (謝文彬), aged 77, was appointed an independent non-executive director in January 2005. He is a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Tse has over 40 years' experience in the banking industry. He worked for The Hongkong and Shanghai Banking Corporation Limited, Hong Kong (HSBC) from 1968 until his retirement in 2002. During his service with HSBC, he held various key positions, including senior credit manager, district manager, managing director — Wayfoong Finance Limited and Wayfoong Credit Limited, area manager of Retail Banking, senior executive of Corporate and Institutional Banking and senior executive — Commercial Banking. After his retirement from HSBC, he served as a director and chief executive officer of Allied Banking Corporation (Hong Kong) Limited from April 2003 to October 2004. In December 2004, he joined SEA Holdings Limited, a company engaged in property investment and development which is listed on the Stock Exchange (Stock Code: 0251), serving as an executive director before being designated a non-executive director, until he stepped down in May 2009. He was appointed as an independent non-executive director of HSBC Insurance (Asia) Limited in August 2003 and HSBC Life (International) Limited in August 2007 until his resignation in February 2020.

Mr. Tse is currently an independent non-executive director of Tysan Holdings Limited (formerly known as Hong Kong International Construction Investment Management Group Co., Limited), a company engaged in foundation piling, property investment and development, which is listed on the Stock Exchange (Stock Code: 0687) (appointed in September 2004). Since January 2006, he has served as an independent non-executive director of China Fishery Group Limited, which is listed on the Stock Exchange of Singapore (SGX: B0Z). According to the announcements published by China Fishery Group Limited, that company together with its various non-Peruvian subsidiaries, have filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code, while a consensual restructuring of its key Peruvian subsidiaries is being pursued in a transparent and sustainable manner in Peru. A trustee has been appointed for one of its subsidiaries which have filed for the Chapter 11 relief. At the date of this annual report, the plan of reorganization for the Chapter 11 proceedings is still on-going.

Mr. Chang George Ka Ki (張家騏), aged 67, was appointed an independent non-executive director in November 2007. He is a member of the Audit Committee, the Remuneration Committee and the Corporate Development Committee of the Company. Mr. Chang has spent much of his career in accounting and auditing thus possesses solid professional knowledge in these areas. He also served as the deputy group controller of the Group from 1984 to 1986.

Mr. Chang has been a director at Morningside Asia, a venture capital firm, since September 1991 and, since March 2015, a non-executive director of Hang Lung Group Limited, a company engaged in property development and investment, and listed on the Stock Exchange (Stock Code: 0010). Mr. Chang has been a certified public accountant recognised by the State of California, U.S. since 1980 and a member of the American Institute of Certified Public Accountants since 1984. He has also been an associate member of the Hong Kong Institute of Certified Public Accountants since 1984, and a chartered accountant and a member of the Institute of Chartered Accountants of Ontario since 1992. Mr. Chang graduated from the University of Wisconsin Madison and received a Master of Business Administration in December 1976.

Mr. Mak Wing Sum Alvin (麥永森), aged 67, was appointed an independent non-executive director on 1 July 2012. He is the chairman of the Remuneration Committee and a member of both the Nomination Committee and the Corporate Development Committee of the Company. After working in Citibank for over 26 years, Mr. Mak retired on 1 May 2012. He last served as the Head of Markets and Banking for Citibank Hong Kong, being the country business manager for corporate and investment banking business. In Citibank, he held various senior positions including Head of Global Banking responsible for managing all the coverage bankers. Prior to that, he also managed the Hong Kong corporate finance business, the regional asset management business and was the Chief Financial Officer of North Asia. Mr. Mak is also an independent non-executive director of the following companies which are all listed on the Hong Kong Stock Exchange: Luk Fook Holdings (International) Limited (Stock Code: 0590), Lai Fung Holdings Limited (Stock Code: 1125), Hong Kong Television Network Limited (Stock Code: 1137) and Goldpac Group Limited (Stock Code: 3315). He was also as independent non-executive director of I.T Limited (Stock Code: 0999) from March 2012 to December 2019. He is a member of the Hong Kong Housing Society and a member of several of its committees. In September 2018, Mr. Mak was appointed as a member of the supervisory board and the chairman of the audit committee of the Hong Kong Housing Society.

Mr. Mak is a Chartered Accountant and a member of the Institute of Chartered Accountants of Ontario and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Mak graduated from the University of Toronto and obtained a bachelor's degree in commerce in 1976.

Changes in Directors' Biographical information

Changes in the information of Directors since 21 August 2019, being the date of the Company's 2019 interim report, and up to the date of this report, which are required to be disclosed pursuant to the Listing Rules, are set out below:

Name of Director	Details of Changes
Mr. Lo Ching Leung Andrew	Ceased to act as • a member of the Trade and Industry Advisory Board on 31 December 2019
Mr. Tse Man Bun Benny	Ceased to act as • an independent non-executive director of HSBC Insurance (Asia) Limited and HSBC Life (International) Limited on 14 February 2020
Mr. Mak Wing Sum Alvin	Ceased to act as • an independent non-executive director of I.T Limited (Stock Code: 0999) on 2 December 2019

SENIOR MANAGEMENT

The executive directors and senior management are responsible for the day-to-day management and operation of the business.

Mr. Li Wai Kwan (李偉君), aged 48, was appointed Chief Financial Officer and Company Secretary on 1 December 2018. He is a member of the Corporate Development Committee of the Company.

Prior to joining the Company, Mr. Li was the chief financial officer of Zhuhai Dahengqin Property Limited. Before that, Mr. Li worked in several companies listed on the Hong Kong Stock Exchange including China Agri-Industries Holdings Limited (stock code: 606) and Esprit Holdings Limited (stock code: 330), where he developed extensive experience in leading finance and accounting, mergers and acquisitions, treasury, investor relations and corporate governance functions.

Mr. Li graduated from the University of Toronto with a bachelor's degree in Commerce with distinction, and received a Master of Business Administration from York University, Canada. He is also a member of the Hong Kong Institute of Certified Public Accountants amongst his various professional qualifications.

Mr. Lo Wing Sing Eddie (盧永盛), aged 60, was appointed the president of the intimate division in May 2006 and is mainly responsible for overseeing the overall operation of the intimate division. Mr. Eddie Lo joined the Group in March 2003 and has held various positions. He served as the general manager from 2003 and was later promoted to president of the ACCI group. He was then transferred as acting president of the intimate division from June 2005 to April 2006. Mr. Eddie Lo was subsequently promoted to president of the intimate division. Before joining the Group, Mr. Eddie Lo worked at Glorious Sun Enterprises Ltd., which is listed on the Stock Exchange (Stock Code: 0393), serving as the general manager and a director of its subsidiary Jeanswest Corporation Pty. Ltd., an apparel retailing company.

Mr. Wong Ho (黃河), aged 53, was appointed the president of the denim division in January 2016. Mr. Wong joined the Group as a quality control supervisor of the lifestyle wear division in October 1992 and has held various positions. He was transferred to the denim division and served as operation manager from 1999, prior to being promoted to general manager. Mr. Wong obtained a higher diploma in textiles and clothing studies from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1989.

Mr. Lo Howard Ching Ho (羅正豪), aged 41, was appointed a senior vice president of sales and operations in April 2014. Mr. Howard Lo joined the Group as an executive trainee from September 2005 to March 2007. He was then transferred to the lifestyle wear division and served as assistant manager-merchandising from April 2007 to August 2007, assistant general manager of sales from September 2007 to July 2008, assistant general manager from August 2008 to December 2010 and the general manager of sales and operations from January 2011 to March 2014. Before joining the Group, Mr. Howard Lo worked at Citigroup from 2001 to 2005. He received one of the Young Industrialist Awards of Hong Kong in 2016.

Mr. Howard Lo graduated from the University of Toronto with a bachelor's degree in commerce in June 2001. Mr. Howard Lo is the son of Mr. Kenneth Lo, the Chairman and executive director, and Mrs. Yvonne Lo, the Vice Chairman and executive director, and is a brother of Mr. Andrew Lo, the executive director and the Chief Executive Officer.

COMPANY SECRETARY

Please see "Senior Management — Mr. Li Wai Kwan (李偉君)" above.

Report of the Directors

The Board is pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

COMPANY INCORPORATION

The Company was initially incorporated in Bermuda on 4 January 1993. In anticipation of the listing of shares on the Stock Exchange, the Company re-domiciled and was registered by way of continuation as an exempted company in the Cayman Islands on 29 December 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company's shares were listed on the Main Board of the Stock Exchange on 3 November 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion of the Group's future business development are set out in the Chairman's Statement as well as the Management Discussion and Analysis on page 3 and pages 4 to 9 of this annual report. Commentary on the Group's relationships with its key stakeholders is given in the Chairman's Statement on page 3 of this annual report. An analysis of the Group's performance during the year using key financial information is set out in the Financial Highlights on page 2 of this annual report. The outbreak of COVID-19 has grown into a large-scale, multi-country epidemic during the first quarter of 2020 producing a challenging situation for all industries and society generally. The Group has assessed the overall impact of the situation on the entirety of its operations and taken all possible effective measures to limit the adverse effects of the rapidly spreading virus on people and activities. The Group is paying continuous attention to the ever-changing situation in order to respond appropriately with speed in a proactive manner. The outbreak of COVID-19 is expected to have negative impact on the global economic environments as well as the Group's revenue and profit in 2020; however, the Group is not able to estimate the financial effect at the date of this report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements on pages 53 to 139 of this annual report.

The Board has recommended to pay Shareholders a final dividend of HK8.5 cents per ordinary share for the year ended 31 December 2019, amounting to a total of approximately HK$242,490,000 (equivalent to approximately US$31,137,000). Subject to the approval of the proposed final dividend by Shareholders at the Annual General Meeting to be held on Wednesday, 3 June 2020, the proposed final dividend is expected to be paid on Tuesday, 7 July 2020.

DIVIDEND POLICY

The Company has adopted a dividend policy ("**Dividend Policy**") which was approved by the Board on 5 December 2018. According to the Dividend Policy, the Company may distribute dividends by way of cash or other means that the Board considers appropriate. Any proposed distribution of dividends would be subject to the discretion of the Board and the approval of Shareholders, taking into account the results of operations, financial condition, operating requirements, capital requirements, shareholders' interests and any other considerations that the Board may deem relevant. The declaration and payment of dividends may also be limited by legal restrictions and by loan or other agreements that the Company and its subsidiaries have entered into or may enter into in the future.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT THE AGM AND TO THE FINAL DIVIDEND

The forthcoming AGM will be held on 3 June 2020. Notice of the AGM will be sent to all Shareholders in due course. For the purpose of determining a Shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 29 May 2020 to Wednesday, 3 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 28 May 2020.

For the purpose of ascertaining Shareholders' entitlements to the proposed final dividend, the register of members of the Company will be closed from Friday, 19 June 2020 to Tuesday, 23 June 2020, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 18 June 2020.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five years is set out on page 140 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 23 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 42 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2019, the reserves of the Company available for distribution to its Shareholders amounted to approximately US$580 million (2018: US$567 million).

DONATIONS

Charitable donations made by the Group during the year ended 31 December 2019 amounted to US$1 million (2018: US$1 million).

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2019 are set out in note 40 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, sales to the Group's five largest customers accounted for approximately 67.0% of the Group's total sales for the year (of which sales to the Group's largest customer accounted for approximately 37.9%). Purchases from the Group's five largest suppliers accounted for approximately 28.2% of the Group's total purchases for the year (of which purchases attributable to the largest supplier accounted for approximately 11.5%).

None of the Directors, nor any of their close associates nor any shareholder (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in any of the Group's five largest customers or suppliers at 31 December 2019.

RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and other jurisdictions where the Group. In addition, the Group operates one defined benefit retirement scheme (that is closed to new members) in the U.K. Particulars of the retirement benefit schemes are set out in note 27 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report are:

Executive Directors

Mr. LO Lok Fung Kenneth *(Chairman)*
Mrs. LO CHOY Yuk Ching Yvonne *(Vice Chairman)*
Mr. LO Ching Leung Andrew *(Chief Executive Officer)*
Mr. WONG Chi Fai
Mr. WONG Sing Wah

Independent Non-executive Directors

Mr. GRIFFITHS Anthony Nigel Clifton
Mr. TSE Man Bun Benny
Mr. CHANG George Ka Ki
Mr. MAK Wing Sum Alvin

In accordance with Article 16.18 of the Articles of Association, Mr. Andrew Lo, Mr. Chang and Mr. Mak shall retire at the AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

The Company has received confirmation from all independent non-executive directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors to be independent.

DIRECTORS', SENIOR MANAGEMENT'S AND COMPANY SECRETARY'S PROFILES

Profiles of the Directors, the senior management and company secretary are set out on pages 10 to 15 of this annual report.

DIRECTORS' SERVICE AGREEMENTS

The service agreements with each executive director and the letters of appointment given to each independent non-executive director were entered into for a fixed term of one year that commenced on 6 October 2019. The service agreements and the letters of appointment are subject to termination in accordance with their respective terms. The service agreements and the letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

The emoluments of directors have been determined with reference to the skills, knowledge and involvement in the Company's affairs, the performance of each director and prevailing market conditions during the year.

Save as disclosed above, none of the Directors has entered, or has proposed to enter, into a service agreement with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

SHARE AWARD SCHEMES

The Company's share award scheme ("**Share Award Scheme A**") was adopted pursuant to a resolution passed on 28 December 2016 for the primary purpose of providing incentives to eligible employees of the Group.

On 28 December 2016, 128 shares of the Company (the "**Incentive Shares**"), representing 1.067% of the issued shares of the Company were transferred from CGL, the former ultimate holding company, to eligible employees pursuant to Share Award Scheme A. No consideration was paid by the grantees for the grant of the Incentive Shares. All Incentive Shares vested immediately as there was no vesting requirement under Share Award Scheme A.

The Company adopted a further share award scheme ("**Share Award Scheme B**") in April 2017 and appointed the Trustee to assist with the administration and vesting of shares to be awarded pursuant to Share Award Scheme B. The purpose of Share Award Scheme B is to recognise the Group's existing and past executives, consultants or officers for their past service and contribution to the Group, to motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group and to provide the opportunity to own equity interests in the Company. There is no limit on the maximum number of share awards to be granted to each eligible person under Share Award Scheme B. The Company may (i) allot and issue shares to the Trustee to be held by the Trustee and which will be used to satisfy the share awards upon exercise and/or (ii) direct and procure the Trustee to receive existing shares from any Shareholder.

Share Award Scheme B is valid and effective for a period of ten years, commencing from the date of the first grant of shares under this scheme. During the year ended 31 December 2017, 13,062,000 shares were granted to 93 persons who are eligible under Share Award Scheme B, details of which are set out in note 32 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save for the related party transactions disclosed in note 38 to the consolidated financial statements, no Director and/or any of his/her connected entities had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A number of continuing agreements and arrangements with connected persons (as defined under Chapter 14A of the Listing Rules) have been entered into in the ordinary and usual course of business. Upon the listing of the shares on the Stock Exchange, the transactions disclosed under this section constituted non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

The following table sets out the amounts of the Group's non-exempt continuing connected transactions for the year ended 31 December 2019:

	Connected persons	Nature of transactions	Transaction amount US$'000	Annual cap US$'000
1.	Tanbo Development Limited	Expense paid/payable for lease of premises	69	
	Happy Field Company Limited	Expense paid/payable for lease of premises	689	
	Joint Access Limited	Expense paid/payable for lease of premises	536	
	Asia Success Properties Limited (formerly known as Sinotex Corporation Limited)	Expense paid/payable for lease of premises	1,829	
		Sub-total	3,123	3,200
2.	Masterknit	Income received/receivable for provision of management services	435	3,264
3.	Masterknit	Income received/receivable for subcontracting services	3,137	26,711
4.	Masterknit	Income received/receivable for material sourcing	Nil	18,360
5.	Masterknit	Expense paid/payable for lease of equipment	500	6,412

The following transactions between certain connected parties (as defined in the Listing Rules) and the Company constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

1) *Leases with Shareholders' Entities*

On 1 January 2017, the Group, as tenants, entered into a lease with Sinotex Corporation Limited (currently known as Asia Success Properties Limited), an entity controlled by the Controlling Shareholders. On 1 April 2017, the Group, as tenants, entered into various leases with Tanbo Development Limited and Happy Field Company Limited, being entities controlled by the Controlling Shareholders, and with Joint Access Limited, being an entity controlled by Mr. Andrew Lo (collectively the "**Shareholders' Entities**"). Pursuant to the leases with the entities above (the "**Leases with Shareholders' Entities**"), the Shareholders' Entities, as landlords, agreed to lease the premises for office, warehouse and living quarters purposes, the lease terms of which are all not more than three years. Since the Shareholders' Entities are connected persons of the Company, and the transactions with these entities are of a similar nature, such transactions will be aggregated and treated as if they were one transaction, pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules.

DTZ Cushman & Wakefield Limited, the property valuer of the Company, has confirmed that the rent payable under the Leases with Shareholders' Entities reflects prevailing market rates. The Directors confirm that the annual rent payable is determined on normal commercial terms and with reference to market price.

2) *Agreements with Masterknit*

Set out below are (a) provision of general services to Masterknit; (b) sub-contracting transactions between the Group as the sub-contractor and Masterknit as the customer; (c) materials sourcing transactions between the Group as the supplier and Masterknit as the purchaser; and (d) equipment leasing from Masterknit. When the agreements with Masterknit were entered into in 2017, there were no historical figures for the transactions with Masterknit detailed below as (i) Masterknit and the Company were independent third parties until CGL, through its wholly-owned subsidiary, acquired a 60% interest in Masterknit in July 2017; (ii) the Company does not develop and manufacture shoe products and therefore did not have business relationships with Masterknit, that is mainly engaged in developing and producing flat knitted shoe upper products.

(a) the General Services Agreement

On 1 July 2017, the Group entered into a general services agreement with Masterknit, pursuant to which various services were to be provided to Masterknit including, among others, IT system support, data processing, analysis, general administrative services, human resource support, research and development and logistics. The term of the agreement was 1 July 2017 to 31 December 2019. The fees for general services were determined based on a percentage of Masterknit's quarterly revenue and having considered the Group's costs of a similar nature and Masterknit's historical costs.

(b) the Framework Sub-contracting Services Agreement

Parties: The Group (as the sub-contractor) and Masterknit (as the customer)

Principal terms: The Group entered into a framework sub-contracting services agreement with Masterknit, pursuant to which the Group provided sub-contracting services to Masterknit from time to time. The term of the agreement was 1 October 2017 to 31 December 2019.

Reasons for the transaction: As the Group possessed expertise in garment manufacturing and the Group was moving into the manufacture of sportswear and accessories, the cooperation with Masterknit enabled the Group to gain experience of knitted shoe upper manufacture while Masterknit, lacking its own manufacturing capability, required reputable sub-contractors.

Pricing policy: The sub-contracting fees were determined with reference to comparable processing charges by third-party sub-contractors providing similar services to Masterknit and having considered (i) the number of machines installed on available factory spaces; (ii) the estimates of output per machine per year and (iii) the unit productivity and comparable processing charges.

(c) the Framework Materials Sourcing Agreement

Parties: The Group (as the supplier) and Masterknit (as the purchaser)

Principal terms: The Group entered into a framework materials sourcing agreement with Masterknit, pursuant to which Masterknit purchased various yarn related products. The term of the agreement was 1 October 2017 to 31 December 2019.

Reasons for the transaction: The Group has extensive experience and expertise in sourcing a broad range of materials. The materials sourcing service is primarily related to the sub-contracting services being provided to Masterknit. The Group was able to use its extensive sourcing network to reduce the cost of materials thus enhancing its cost competitiveness when subcontracting to Masterknit.

Pricing policy: The materials sourcing prices were determined with reference to market prices available from independent third parties and the estimated material costs of the different product mix to revenue percentages.

Since Masterknit is a connected person and the transactions with Masterknit under the categories of (a)–(c) above are of a similar nature, the transactions have been aggregated and treated as if they were one transaction pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the above categories of transactions with Masterknit have been aggregated, and such aggregate amount was used when calculating the relevant percentage ratios under Chapter 14 of the Listing Rules. As the applicable "percentage ratios" (other than the profits ratio) for the transactions under the above categories were more than 0.1% but below 5%, the transactions contemplated were exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements, but were subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

(d) the Equipment Leasing Agreement

The Group entered into an equipment leasing agreement with Masterknit, under which Masterknit agreed to lease to the Group various production equipment. As the sub-contracting services mentioned in (b) above required different types of production equipment, it was considered commercially sensible for Masterknit to lease the required equipment to the Group due to the reasons that (i) it being more cost effective for the relevant equipment to be leased instead of purchased since the Group was only providing subcontracting services regarding knitted shoe uppers to Masterknit and (ii) Masterknit dealing directly with its customers regarding product development that enabled Masterknit to determine the most suitable equipment to be used to achieve the desired product quality. The term of the agreement was 1 October 2017 to 31 December 2019. The fees for equipment leasing were determined with reference to the cost of such production equipment and an agreed internal rate of return and having considered (i) the cost of leasing the relevant equipment and (ii) the estimated number of machines to be installed.

As the applicable "percentage ratios" (other than the profits ratio) for the transaction were more than 0.1% but below 5%, the transaction described above was exempt from the circular (including independent financial advice) and independent shareholders' approval requirements, but was subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Renewal of Continuing Connected Transactions

In December 2019, the Group renewed (i) the Leases with Shareholders' Entities, (ii) the General Services Agreement, (iii) the Framework Sub-contracting Services Agreement and (iv) the Equipment Leasing Agreement, the terms of which will expire on 31 December 2020. Details of the renewal were set out in the announcement made by the Company on 20 December 2019 and the supplemental announcement made by the Company on 14 January 2020.

Waivers from the Stock Exchange

The transactions described in the section "Non-exempt Continuing Connected Transactions" above constitute the Group's non-exempt continuing connected transactions and would normally require reporting and announcement but are exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules. The Stock Exchange has granted the Company a waiver for the above non-exempt continuing connected transactions from strict compliance with the announcements under Rule 14A.105 of the Listing Rules, subject to the condition that the annual transaction value shall not exceed the estimated annual cap (as stated above). The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules during the reporting period, and will immediately inform the Stock Exchange if there are any changes to the non-exempt continuing connected transactions.

Annual Review of the Continuing Connected Transactions

The independent non-executive directors have reviewed the above continuing connected transactions and confirm that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

Pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the Company's auditor was engaged to perform certain procedures in respect of the continuing connected transactions set out above in accordance with the Hong Kong Standard on Assurance Engagements 3000 "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 issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 38 to the consolidated financial statements. During the year ended 31 December 2019, certain related party transactions, as disclosed in notes 38(a) and 38(e), constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

At 31 December 2019, none of the Directors was interested in any business, apart from the Group's businesses, which competed or was likely to compete, either directly or indirectly, with the businesses of the Group.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save as otherwise disclosed in this annual report, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2019, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or were deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company

Name of Director	Nature of Interest	Number of shares (note a)	Approximate Percentage of Shareholding in the Company (%)
Mr. Kenneth Lo (note b)	Beneficial owner	1,141,136,640	40.00%
	Interest of spouse	1,142,741,140	40.06%
Mrs. Yvonne Lo (note c)	Beneficial owner	1,141,136,640	40.00%
	Interest of spouse	1,141,136,640	40.00%
	Founder of a discretionary trust who can influence the trustee	1,604,500	0.06%
Mr. Andrew Lo (note d)	Beneficial owner	8,074,080	0.28%
Mr. Dennis Wong (note d)	Beneficial owner	7,497,360	0.26%
Mr. Frankie Wong (note d)	Beneficial owner	4,806,000	0.17%

Notes:

(a) All positions are long positions.

(b) Under the SFO, Mr. Kenneth Lo, as the spouse of Mrs. Yvonne Lo, is deemed to be interested in the 1,142,741,140 shares in which Mrs. Yvonne Lo is interested.

(c) Under the SFO, Mrs. Yvonne Lo, as the spouse of Mr. Kenneth Lo, is deemed to be interested in the 1,141,136,640 shares in which Mr. Kenneth Lo is interested. Mrs. Yvonne Lo and her spouse Mr. Kenneth Lo were interested in a total of 1,604,500 shares held by The Incorporated Trustees of Yuk Ching Charity Trust of which Mrs. Yvonne Lo is a founder and chairman.

(d) These shares were acquired pursuant to Share Award Scheme A.

Save as disclosed above, at 31 December 2019, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or were deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

At 31 December 2019, the following person(s) (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name	Nature of Interest	Number of shares (Long position)	Approximate percentage of shareholding in the Company (%)
Schroders Plc	Investment manager	143,845,500	5.04

Save as disclosed above, at 31 December 2019, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

PUBLIC FLOAT

At the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float as agreed with the Stock Exchange during the year ended 31 December 2019 and up to the date of this annual report.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 28 to 44 of this annual report.

AUDIT COMMITTEE

The Audit Committee, together with the management of the Company and the external auditor of the Company, conducted a review of the accounting principles and policies adopted by the Group and the financial statements for the year ended 31 December 2019.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company. A resolution for the re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Company will be proposed at the forthcoming AGM.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2019, the Group has complied with the "comply or explain" provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the Sustainability Report 2019 of Crystal International Group Limited to be published in accordance with the Listing Rules not later than 21 July 2020.

On Behalf of the Board
Lo Lok Fung Kenneth
Chairman
19 March 2020

Corporate Governance Report

CORPORATE GOVERNANCE FRAMEWORK

The Group believes that good corporate governance can enhance its overall effectiveness and thus create additional value for its shareholders. The Group is committed to maintaining high standards and has applied the Principles that are set out in the CG Code as set out in Appendix 14 to the Listing Rules. The Group's corporate governance practices are based on these Principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Group to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance transparency and accountability.

For the financial year ended 31 December 2019, the Group has been in compliance with all the code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Upon specific enquiries being made of all Directors, each of them has confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2019 and up to the date of this annual report.

The Group has established written guidelines for relevant employees with no less exacting terms than the Model Code in respect of securities transactions. No incident of non-compliance with the written guidelines was noted for the year ended 31 December 2019 and up to the date of this annual report.

BOARD OF DIRECTORS

Roles and Responsibilities

The Group endeavours to enhance corporate efficiency and profitability through the Board. The Directors recognise their collective and individual responsibility to the shareholders and perform their duties diligently to contribute to positive results for the Group and maximise returns for shareholders.

The functions and duties of the Board include convening general meetings, reviewing and monitoring the training and continuous professional development of the Directors and senior management, reviewing the Group's compliance with the Code and disclosures in the Corporate Governance Report, implementing the resolutions passed at general meetings, determining strategies, business and investment plans, formulating the annual financial budget and reviewing as well as approving the financial accounts, and formulating proposals for profit distributions as well as exercising other powers, functions and duties conferred by the Articles of Association. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the senior management.

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the year, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Board Composition

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance. It recognises diversity at Board level is an essential element in maintaining competitive advantage and sustainable development. The Board considers it vital to have the appropriate balance of skills, experience and diversity of perspectives that are needed to support the execution of its business strategies.

At 31 December 2019, the Board comprised five executive directors and four independent non-executive directors, whose biographical details and family relationships among certain Directors are set out in the section headed "Directors and Senior Management" on pages 10 to 15 of this annual report. There are no other material financial, business or other relevant relationships among the Directors.

	Name of Directors		**Relevant Board Committees**
Executive Directors (EDs)	Mr. Kenneth Lo	(Chairman)	RC NC
	Mrs. Yvonne Lo	(Vice Chairman)	
	Mr. Andrew Lo	(Chief Executive Officer)	CDC
	Mr. Frankie Wong		CDC
	Mr. Dennis Wong		CDC
Independent Non-executive Directors (INEDs)	Mr. Griffiths		AC NC
	Mr. Tse		AC RC
	Mr. Chang		AC RC CDC
	Mr. Mak		RC NC CDC

The Company has received from all independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive directors to be independent.

BOARD DIVERSITY

The Group has reviewed the Board Diversity Policy during the year ended 31 December 2019. In designing, reviewing and assessing the Board's composition, board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of service and time to be devoted to being a director. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for it to be effective.

Chairman and Chief Executive Officer ("CEO")

The Chairman of the Board is Mr. Kenneth Lo, and the CEO is Mr. Andrew Lo. The roles of Chairman and CEO are performed by separate individuals, and there is clear division of responsibilities between the Chairman and CEO to ensure a balance of power and authority.

Appointment and Re-election of Directors

There is a written nomination policy and process (a formal, considered and transparent process) for the selection and appointment of new Director(s) and there is a plan in place for orderly succession for appointments. All Directors are subject to retirement by rotation at least once every three years.

The independent non-executive directors have letters of appointment from the Company for a fixed term of one year that commenced on 6 October 2019. They are subject to retirement by rotation and are eligible for re-election at the AGM.

BOARD COMMITTEES

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established four Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Development Committee. The Audit Committee comprises only independent non-executive directors as members in order to ensure independence, while the Remuneration Committee and Nomination Committee comprise a majority of independent non-executive directors so that effective independent judgement can be exercised.

The reports of each of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Development Committee for the year under review are set out on pages 31 to 37 of this report.

In order to comply with the Listing Rules and the CG Code, the terms of reference of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Group and the list of Directors and their roles and functions are regularly revised and updated, and are published on the websites of the Group and the Stock Exchange respectively.

AUDIT COMMITTEE REPORT

Committee Composition and Meetings

Throughout the year ended 31 December 2019, the Audit Committee comprised three members, each of whom is an independent non-executive director:

- Mr. GRIFFITHS Anthony Nigel Clifton *(Chairman)*
- Mr. TSE Man Bun Benny
- Mr. CHANG George Ka Ki

The Board considers the Audit Committee to have appropriate, relevant financial experience and each member is independent as required by the Listing Rules. The Audit Committee met five times during the year and all members attended all five meetings. The Chief Financial Officer and the Head of Internal Audit attend the meetings of the Audit Committee by invitation. There is active contact between the members of the Audit Committee between meetings.

Committee Purpose

There was no revision of the terms of reference of the Audit Committee during the year. In accordance with its current terms of reference (available on the websites of the HKEx and the Company), the main focus of the Audit Committee continues to be:

- Reviewing the financial results and reports
- Monitoring the internal control environment
- Assessing the state of the Group' risk management process
- Receiving reports from the external and internal auditors
- Reviewing the continued connected transactions

Reviewing the Financial Results and Reports

During the year ended 31 December 2019, the Audit Committee reviewed the Group's audited consolidated financial statements and reports relating to the year ended 31 December 2018 together with the external auditors, satisfying itself as to the extent of work done by the external auditors, the consistent application of Group accounting policies, the appropriateness of financial judgements applied and the compliance with Board approved limits of connected party transactions. Similar work was conducted in respect of the unaudited condensed consolidated financial statements and reports issued by the Group for the six months ended 30 June 2019. In view of their material significance to the Group, the Audit Committee has given ongoing attention to the valuation of intangible assets. The Audit Committee was satisfied with the outcome of its various reviews set out here.

The Audit Committee reviewed the Group's audited consolidated financial statements and reports relating to the year ended 31 December 2019 on 18 March 2020.

Monitoring the Internal Control Environment

The Audit Committee reviewed reports from the Internal Audit Department, all of which related to the application of internal controls in different parts of the Group and the responses of management to the points made in the reports. The focus during 2019 was (a) on the full and proper control of selling and general administrative expenses in all divisions of the Group and (b) the nature and effectiveness of risk management within the Group. The Audit Committee was satisfied by the responses given and the remedial actions taken. The Audit Committee requires the Internal Audit Department to follow up on the actions proposed to be taken to ensure they have been and continue to be applied. During the year, the Audit Committee reviewed the follow up conducted in regard to the audits conducted by the Internal Audit Department during 2018. When the Audit Committee considers it appropriate, relevant senior management is invited to meet the Audit Committee for further clarification, discussion and agreement of a programme of additional actions.

Towards the end of the year, the Audit Committee was notified of a cyber-originated fraud of small value within a subsidiary of the Group that had been facilitated by lax application of relevant internal controls and inadequate management competence. Internal controls were strengthened immediately throughout the Group to prevent any similar fraud being perpetrated. The Audit Committee reviewed the actions taken together with the subsequent report of the investigation by the Internal Audit Department and satisfied itself that the enhanced control measures would prove effective.

Assessing the State of the Group's Risk Management Process

The Group's risk management process is overseen and supervised by the executive committee of the Company that has delegated operational oversight to the Chief Financial Officer. With the assistance of the Internal Audit Department, the Audit Committee checks that the process is actively in place and in 2019 received a report from the Chief Financial Officer on the system in place, the classification of identified risks and the actions being taken where required. In addition, the Audit Committee meets the relevant general manager responsible for cyber security at least once per year to review the cyber protection systems in place, the number, location and types of attacks that occur and their impact, if any, together with the remedial action taken to improve cyber protection. The Audit Committee also meets the relevant executive directors and the line presidents of the operating divisions annually to review with them at a macro level their issues and concerns with particular reference to risk, its nature, impact and mitigation. At every meeting, the Audit Committee reviews the log of complaints made by whistle blowers and satisfies itself as to the appropriateness of actions taken by management in response to the complaints.

Receiving Reports from the External and Internal Auditors

External auditors

The Audit Committee twice met the external auditors during the year ended 31 December 2019, once without other management present. The external auditors' work, in particular their areas of key focus was extensively reviewed as were the points recorded by the external auditors in their management letter issued after the audit of the annual consolidated financial statements for year ended 31 December 2018. The Audit Committee satisfied itself regarding the actions taken and proposed to be taken by management to resolve the points raised by the external auditors. As part of its terms of reference, the Audit Committee reviewed with the external auditors their financial independence and was satisfied in that respect. The Audit Committee received management's comments on the fees proposed to be charged by the external auditors and satisfied itself they were reasonable for the scope of work being undertaken. Consequently, the Audit Committee recommended to the Board that the external auditors be reappointed and this recommendation was endorsed by the Board then confirmed at the Annual General Meeting during 2019.

Internal auditors

The Audit Committee reviews at the beginning of each year the work planned by the Head of Internal Audit for his Department for the year to ensure that, over a number of years, all parts of the Group are audited as regards financial and material internal controls. As the work is carried out, detailed reports are submitted to the Audit Committee for review and comment before being released more generally. The Audit Committee satisfies itself as to the quality and focus of the work done by the Internal Auditors and that they have been given appropriate access and co-operation in conducting their work and that senior management is overseeing the implementation of any remedial actions required. Occasionally, the Chief Executive Officer or the Board may require the Internal Audit Department to focus on a short-term, urgent matter and the agreement of the Audit Committee is sought. The Audit Committee, from time to time, makes proposals to the Chief Executive Officer regarding the structure and staffing of the Internal Audit Department.

Other Meetings

It is customary for the Audit Committee to meet the chairman of the Board annually either in its own right or together with the fourth independent non-executive director to discuss its work and observations during the year as well as the major issues confronting the Group in implementing its strategy. The focus of such meetings is on risk, specific areas of concern and the adequacy of the resources applied to managing these areas and concerns. In addition, the Audit Committee meets the Chief Executive Officer annually to discuss its observations and any concerns it has regarding the internal control system of the Group together with the effectiveness of the risk management process. These discussions include the performance of the Internal Audit Department and its Head.

Continuing Connected Transactions

The Group has a small number of transactions with companies controlled by directors of the Company and the anticipated annual limits for each transaction for the following year are reported to shareholders annually by public notice. The Audit Committee is kept informed of the value of each of these connected transactions on a regular basis throughout the years so that it can ensure the limits that have been approved by the Board are not exceeded. Towards the end of the year, it reviews the current year's transactions to ensure the caps are unlikely to be breached and also to assess that the caps proposed for the following year have been determined on an arm's length basis and are in the best interests of all shareholders. It may determine there should be adjustments to the caps prior to its recommending the following year's connected transaction caps to the Board for approval. In March 2020, the Audit Committee reviewed the connected transactions for 2019 had not exceeded the caps approved by the Board for each transaction for 2019 and certified this outcome to the Board.

Griffiths Anthony Nigel Clifton
On behalf of the Audit Committee
19 March 2020

REMUNERATION COMMITTEE REPORT

Committee Composition and Meetings

The Remuneration Committee comprises four members:

- Mr. MAK Wing Sum Alvin (Chairman) — independent non-executive director
- Mr. TSE Man Bun Benny — independent non-executive director
- Mr. CHANG George Ka Ki — independent non-executive director
- Mr. LO Lok Fung Kenneth — executive director and chairman of the Board

The Remuneration Committee met once during the year ended 31 December 2019 and all members attended the meeting.

Committee Purpose

In accordance with the Remuneration Committee's terms of reference (available on the websites of the HKEx and the Company), the Remuneration Committee has been established to:

- establish and review the policy and structure of the remuneration for the Directors and senior management.
- make recommendations to the Board on the remuneration packages of individual Directors and senior management.

Work of the Committee

The Remuneration Committee works in accordance with its terms of reference that can be found on the Company's website.

During the year ended 31 December 2019, the Remuneration Committee discussed and agreed on (a) current remuneration structure to be considered in determining remuneration for the executive directors and senior management; (b) bonus to be paid to individual executive directors and senior management; and (c) fees and annual salaries of individual independent non-executive directors, executive directors and senior management.

Mak Wing Sum Alvin
On behalf of the Remuneration Committee
19 March 2020

NOMINATION COMMITTEE REPORT

Committee Composition and Meetings

The Nomination Committee comprises three members:

- Mr. LO Lok Fung Kenneth (Chairman) — executive director and chairman of the Board
- Mr. GRIFFITHS Anthony Nigel Clifton — independent non-executive director
- Mr. MAK Wing Sum Alvin — independent non-executive director

The Nomination Committee met twice during the year ended 31 December 2019 and all members attended each meeting.

Committee Purpose

In accordance with its current terms of reference (available on the websites of the HKEx and the Company), the Nomination Committee has been established to examine and review for the Company:

- Board composition
- Board diversity
- Board succession
- Board effectiveness

and to make recommendations to the Board in these areas for its consideration.

Work of the Committee

The Nomination Committee works in accordance with its current terms of reference that can be found on the Company's website. It keeps under continuous review the composition of the Board, inclusive of its diversity and succession.

During the year ended 31 December 2019, the Nomination Committee reviewed its terms of reference to ensure they complied with the requirements for listed companies issued by the Stock Exchange. In addition, the Nomination Committee reviewed the written nomination policy and process for selection and appointment of new Director(s) and conducted an evaluation of the board structure and performance with the assistance of external consultants during the year, which was completed close to the end of the year. During the coming year, the Nomination Committee will consider the outcomes of the evaluation and their impact on its other work.

At least annually, the Nomination Committee reviews the present and future skills, experience, expertise, character and gender diversity the Board needs to possess for the Company to achieve its long-term strategic objectives and its business plans. When the Nomination Committee feels there are gaps in the collective skills, experience, expertise and character of the Board, it will notify the Board of its views and reasoning and also notify the Board of its recommendations as to what, if any, action needs to be taken and when.

In assessing the composition of the Board and its needs to perform effectively, the Nomination Committee has developed working papers on the skills and attributes needed within the Board and by individual Directors. The review of these papers within the Group prior to their adoption by the Nomination Committee for its use in its work was suspended during the board evaluation process. The review will be resumed in the coming year taking into account the outcomes of the board evaluation.

The Nomination Committee has made a preliminary review of succession within the Board and recommended to the Board the reappointment of various Directors at the Annual General Meeting to be held during 2020. The Nomination Committee intends to adopt and apply the skills and attributes papers in its assessment of Board composition, develop medium term succession plans for discussion with the Board and arrange a further review of the effectiveness of the performance of the Board and its committees.

Lo Lok Fung Kenneth
On behalf of the Nomination Committee
19 March 2020

CORPORATE DEVELOPMENT COMMITTEE REPORT

Committee Composition and Meetings

The Corporate Development Committee comprises five directors and one senior management:

• Mr. LO Ching Leung Andrew (chairman)	—	executive director and Chief Executive Officer
• Mr. WONG Chi Fai	—	executive director
• Mr. WONG Sing Wah	—	executive director
• Mr. CHANG George Ka Ki	—	independent non-executive director
• Mr. MAK Wing Sum Alvin	—	independent non-executive director
• Mr. LI Wai Kwan	—	Chief Financial Officer

The Corporate Development Committee met twice during the year ended 31 December 2019 and all members attended both meetings.

Committee Purpose

In accordance with the Corporate Development Committee's terms of reference, the Corporate Development Committee has been established to:

- review and advise the Board on future development opportunities for the Group.
- challenge the strategic directions in terms of profitability, risks and return on equity.
- recommend any potential acquisition opportunities for the Board's consideration.
- review strategies for business expansion, capital expenditure restructuring, organisational model and competency structure for the Board's consideration.

Work of the Committee

During the year ended 31 December 2019, the Corporate Development Committee reviewed the potential corporate development opportunities and strategies for business expansion.

Lo Ching Leung Andrew
On behalf of the Corporate Development Committee
19 March 2020

DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to the Directors during the current year are as follows:

	Fees US$'000	Salaries and allowances US$'000	Performance-based bonuses US$'000 (note iii)	Retirement benefit schemes contributions US$'000	Total US$'000
For the year ended 31 December 2019					
Executive Directors (note i):					
Mr. Kenneth Lo	–	772	–	–	772
Mrs. Yvonne Lo	–	365	–	–	365
Mr. Andrew Lo (note iv)	–	809	1,411	15	2,235
Mr. Frankie Wong	–	355	554	20	929
Mr. Dennis Wong	–	730	1,336	39	2,105
Independent Non-executive Directors (note ii):					
Mr. Griffiths	74	–	–	–	74
Mr. Tse	50	–	–	–	50
Mr. Chang	52	–	–	–	52
Mr. Mak	56	–	–	–	56
	232	3,031	3,301	74	6,638

Notes:

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

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

(iii) The amounts represent performance-based bonuses paid to the Directors to reward their contributions to the Group, based on the performance of the Group.

(iv) Mr. Andrew Lo is also the Chief Executive Officer of the Company during the year ended 31 December 2019.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 31 December 2019.

FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five individuals with the highest emoluments in the Group include 3 directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2019 US$'000
Salaries and allowances	2,673
Performance-based bonuses (note)	4,225
Retirement benefit schemes contributions	103
Share-based payment expense	119
	7,120

Note: The amounts represent performance-based bonuses paid to the five highest paid individuals to reward their contributions to the Group.

Their emoluments were within the following bands (presented in HK$):

	Number of Directors 2019	Number of employees 2019
HK$6,500,001 to HK$7,000,000	–	1
HK$7,000,001 to HK$7,500,000	1	–
HK$7,500,001 to HK$8,000,000	–	1
HK$16,000,001 to HK$16,500,000	1	–
HK$17,500,001 to HK$18,000,000	1	–
	3	2

During the year ended 31 December 2019, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year ended 31 December 2019.

SENIOR MANAGEMENT REMUNERATION BY BANDS

The remuneration of the Company's senior management, whose profiles are set out on page 15 of this annual report, for the year ended 31 December 2019 were within the following bands (presented in HK$):

	Number of senior management
HK$3,500,001 to HK$4,000,000	1
HK$4,000,001 to HK$4,500,000	1
HK$5,000,001 to HK$5,500,000	1
HK$6,500,001 to HK$7,000,000	1

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to participate in continuous professional trainings at the Company's expenses. All Directors participated in appropriate continuous professional development activities including the Company's in-house update training for Directors during the year ended 31 December 2019, and relevant training records have been maintained by the Company for accurate and comprehensive record keeping.

DIRECTORS' ATTENDANCE AND DEVELOPMENT

Details of Director's attendance at the Board, board committee meetings, annual general meeting and development program held during the year ended 31 December 2019 are set out in the table below:

Name of Directors	Board (note 1)	Audit Committee (note 2)	Remuneration Committee	Nomination Committee	Corporate Development Committee	2019 AGM	Development Program (note 3)
	Number of Meetings Attended/Held						
Executive Directors (EDs)							
Mr. Kenneth Lo	4/5*		1/1	2/2*		1/1	1/1
Mrs. Yvonne Lo	4/5					1/1	1/1
Mr. Andrew Lo	5/5		1/1 (note 4)		2/2*	1/1	1/1
Mr. Frankie Wong	5/5				2/2	1/1	1/1
Mr. Dennis Wong	5/5				2/2	1/1	1/1
Independent Non-executive Directors (INEDs)							
Mr. Griffiths	5/5	5/5*		2/2		1/1	1/1
Mr. Tse	5/5	5/5	1/1			1/1	1/1
Mr. Chang	4/5	5/5	1/1		2/2	1/1	1/1
Mr. Mak	5/5		1/1*	2/2	2/2	1/1	1/1
Approximate average duration per meeting (hour)	4	2	1	1.3	3	1	1

* representing chairman of the Board or relevant board committees.

Notes:

(1) The above figures exclude resolutions in writing signed by all Directors, meetings between the chairman and INEDs without the presence of EDs and the board meetings other than the regular board meetings held quarterly.

(2) Excluding meetings with the chairman, CEO, the relevant EDs and the line presidents of the operating divisions.

(3) In-house update training or continuing professional development program for the Directors.

(4) Although Mr. Andrew Lo is not a member of the Remuneration Committee, he (being the CEO) was invited to attend a Remuneration Committee meeting and was prohibited from voting or being counted as part of the quorum.

EXTERNAL AUDITOR

The Group's independent external auditor is Deloitte Touche Tohmatsu. The external auditor is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It receives a report from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

For the year ended 31 December 2019, the total fee paid/payable in respect of services provided by Deloitte Touche Tohmatsu were US$0.9 million, comprising fees for audit services US$0.7 million and for non-audit services (including tax filing and advice) US$0.2 million.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment of the financial affairs of the Group in the consolidated financial statements of the annual and interim reports, other price sensitive announcements and other financial disclosures required under the Listing Rules, and to report to the regulators as well as to disclose information required pursuant to statutory requirements. The statement of the external auditor about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. When the Directors become aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, such uncertainties would be set out and discussed in detail in this Corporate Governance Report.

The statement of the independent auditor of the Company about its reporting responsibilities and opinion on the consolidated financial statements of the Company for the year ended 31 December 2019 is set out in the Independent Auditor's Report on page 48 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management provides a confirmation to the Board on the effectiveness of these systems.

The Board's oversight of the Company's risk management and internal control systems is ongoing, and the effectiveness of the Company's risk management and internal control systems is reviewed at least annually and reported to the shareholders pursuant to the requirements of the Listing Rules.

During the year under review, the Board conducted its annual review of the effectiveness of the system of internal control (including financial, operational and compliance control) and risk management, has discovered no material defect in internal control, and considered the existing system to be effective and adequate. This was achieved primarily through:

- approving the work plan for the risk management function
- reviewing the periodical risk management activity reports
- reviewing the risks register and updating the relevant risks
- reporting movements in key risks

The Company also had adequate resources, qualified staff, training courses and budgets in its accounting, internal audit and financial reporting functions.

The Board acknowledges that it is responsible for the risk management and internal control systems and for reviewing their effectiveness and such systems have been designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

INTERNAL AUDIT

Reporting to the Audit Committee, the Internal Audit department provides necessary information to assist management and the Audit Committee to assess the effectiveness of the risk management and internal control systems in order to achieve the business objectives and corporate governance requirements of the Group. Internal auditors conduct or support investigations, as required or directed from time to time by the Board or the Audit Committee.

INSIDE INFORMATION

The Group has reviewed the policy and procedures for the handling and dissemination of inside information during the year ended 31 December 2019. The policy provides a general guide to Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and replying to enquiries. Control procedures are implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

COMPANY SECRETARY

During the year under review and up to the date of this report, Mr. Li is the Company Secretary and reports directly to the Board and is responsible for providing updated and timely information to all Directors.

For the year ended 31 December 2019, Mr. Li has confirmed that he has complied with the training requirements under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Group aims to establish fair and transparent procedures to afford all shareholders an equal opportunity to exercise their rights in an informed manner and communicate efficiently with the Group. Under the Articles of Association and the relevant policies and procedures of the Group, the shareholders have, among others, the following rights:

Convene an Extraordinary General Meeting

General meetings shall be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong (3/F, Crystal Industrial Building, 71 How Ming Street, Kwun Tong, Kowloon, Hong Kong) or, in the event the Company ceases to have a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong (3/F, Crystal Industrial Building, 71 How Ming Street, Kwun Tong, Kowloon, Hong Kong) or, in the event the Company ceases to have a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company. The Company will take appropriate action and make all necessary arrangements in accordance with the requirements of Article 12.3 of the Company's Articles of Association once a valid requisition is received.

Propose a Person for Election as a Director

The Company has adopted the procedures for shareholders to propose a person for election as a Director with effect from the Listing Date. The procedures are available on the Group's website.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Pursuant to the code provision E.1.2 as set out in the CG Code, the Company has invited representatives of the external auditor of the Company to attend the AGM of the Company to be convened on 3 June 2020 to answer shareholders' questions relating to the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Board recognises the importance of communication with its shareholders and investors. The Company has established an Investor Relations Department to communicate with research analysts, institutional investors and shareholders in an on-going and timely manner, providing them necessary information, data and services to understand the Company's operations, strategies and development. The Company also issues press releases from time to time and responds to requests for information and queries from the investment community. Current information about the Company including the annual report, announcements, circulars and press releases can be downloaded from the Company's website (www.crystalgroup.com). Enquiries may be put to the Board by either contacting the Investor Relations Department through email at ir@crystalgroup.com or raising questions at a general meeting.

CONSTITUTIONAL DOCUMENT

The Company's Memorandum and Articles of Association (M&A) were amended and restated at 6 October 2017 with effect from the Listing Date. There has been no change to the M&A during the year ended 31 December 2019 and a copy of the M&A is available on the websites of the Company and the Stock Exchange.

AWARDS AND RECOGNITIONS

The Board is pleased to list some of the major awards presented by renowned organisations to the Group during 2019:

Organisation	Recognition/Award
The Chamber of Hong Kong Listed Companies (CHKLC) and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University	Corporate Governance Excellence Award (newly listed companies) Sustainability Excellence Award
am730, ifeng.com and PR Asia	ListCo Excellence Awards 2019
World Wide Fund for Nature (WWF) in Hong Kong	Platinum Label — Low Carbon Manufacturing Programme (LCMP)
Ministry of Industry and Information Technology of the PRC	National Green Factory
Vietnam Association for Conservation of Nature and Environment	Certificate of merit to outstanding organisations and individuals in environmental protection work
Federation of Hong Kong Industries	BOCHK Corporate Environmental Leadership Awards 2018: 5 Years+ EcoPioneer and EcoChallenger

The recognition provided by these awards contributes directly to the Board's determination to ensure the complete compliance of the Group's products and service with the most stringent benchmarks and specifications demanded by key customers. They also contribute towards the Group's ability to benefit from consolidating its base of suppliers, as the Group complies with the tightening regulations and the increasing requirements relating to corporate sustainability in the fast-changing apparel industry.

Glossary

"Annual General Meeting" or "AGM"	the annual general meeting of the Company
"Articles of Association"	the articles of association of the Company restated at 6 October 2017
"Audit Committee" or "AC"	the Audit Committee of the Company
"Board"	the board of directors of the Company
"Board Diversity Policy"	the policy on board diversity of the Company
"CG Code"	the Corporate Governance Code
"CGL"	Crystal Group Limited, the controlling shareholder of the Company until March 2019 when its entire interests in the Company were distributed to Mr. Kenneth Lo and Mrs. Yvonne Lo
"Chairman"	the chairman of the Board (unless the context requires otherwise)
"Chief Executive Officer" or "CEO"	chief executive officer of the Group
"Chief Financial Officer"	chief financial officer of the Group
"Company Secretary"	company secretary of the Company
"Controlling Shareholders"	collectively refers to Mr. Kenneth Lo and Mrs. Yvonne Lo
"Corporate Development Committee" or "CDC"	the Corporate Development Committee of the Company
"COVID-19"	the 2019 Novel Coronavirus
"Crystal International" or "Company", or "We", or "our", or "us"	Crystal International Group Limited, a company incorporated in Bermuda with limited liability and registered by way of continuation in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Director(s)"	the director(s) of the Company
"Executive Directors" or "EDs"	executive directors of the Company (unless the context requires otherwise)
"Group" or "Crystal Group"	the Company and/or its subsidiaries
"HK$"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Incentive Shares"	128 shares of the Company transferred from Crystal Group Limited to eligible employees pursuant to Share Award Scheme A on 28 December 2016
"Independent Non-executive Directors" or "INEDs"	independent non-executive directors of the Company (unless the context requires otherwise)
"Leases with Shareholders' Entities"	the leases with the entities as listed in the table in page 20
"Listing Date"	3 November 2017
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Masterknit"	Masterknit Limited
"Model Code"	the Model Code for Securities Transactions by directors of Listed Companies
"MPF Scheme"	Mandatory Provident Fund Scheme
"Mr. Andrew Lo"	Mr. Lo Ching Leung Andrew
"Mr. Chang"	Mr. Chang George Ka Ki
"Mr. Dennis Wong"	Mr. Wong Sing Wah
"Mr. Eddie Lo"	Mr. Lo Wing Sing Eddie
"Mr. Frankie Wong"	Mr. Wong Chi Fai
"Mr. Griffiths"	Mr. Griffiths Anthony Nigel Clifton
"Mr. Howard Lo"	Mr. Lo Howard Ching Ho
"Mr. Kenneth Lo"	Mr. Lo Lok Fung Kenneth
"Mr. Li"	Mr. Li Wai Kwan
"Mr. Mak"	Mr. Mak Wing Sum Alvin
"Mr. Tse"	Mr. Tse Man Bun Benny
"Mr. Wong"	Mr. Wong Ho
"Mrs. Yvonne Lo"	Mrs. Lo Choy Yuk Ching Yvonne
"Nomination Committee" or "NC"	the Nomination Committee of the Company

"Ordinary Share"	ordinary share(s) of HK$0.01 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
"PRC" or "China"	the People's Republic of China
"Principles"	the principles of good corporate governance (unless the context requires otherwise)
"RMB"	the Renminbi
"SFO"	the Securities and Futures Ordinance
"Share Award Scheme A"	the Company's share award scheme adopted on 28 December 2016
"Share Award Scheme B"	the Company's share award scheme adopted in April 2017
"Reallocation Program"	the program of reallocation of capacity from the PRC to non-PRC production bases
"Remuneration Committee" or "RC"	the Remuneration Committee of the Company
"Shareholder(s)"	the holder(s) of ordinary share(s) of HK$0.01 each in the issued capital of the Company
"Stock Exchange", "Hong Kong Stock Exchange" or "HKEx"	the Stock Exchange of Hong Kong Limited
"Trustee"	The Core Trust Company Limited, an independent professional trustee
"U.K."	the United Kingdom
"US$"	US Dollars
"United States" or "USA" or "U.S." or "US"	the United States of America
"Vice Chairman"	vice chairman of the Board
"Vista"	Vista Corp Holdings Limited and its subsidiaries

Deloitte. 德勤

TO THE SHAREHOLDERS OF CRYSTAL INTERNATIONAL GROUP LIMITED

(incorporated in Bermuda with limited liability and registered by way of continuation in the Cayman Islands)

OPINION

We have audited the consolidated financial statements of Crystal International Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 53 to 139, which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") 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 International Standards on Auditing ("**ISAs**"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of goodwill and an intangible asset with indefinite useful life

We identified the impairment assessment of goodwill and an intangible asset with indefinite useful life, namely brand name, which are allocated to the cash-generating unit ("**CGU**") of Vista Corp Holdings Limited ("**Vista**") as a key audit matter because of the significance of the balances to the consolidated statement of financial position as a whole and the significant degree of judgment made by management in the assessment process.

Determining whether goodwill and the intangible asset with indefinite useful life are impaired requires management's estimation of the value in use of the CGU business to which the goodwill and the intangible asset with indefinite useful life have been allocated. The value in use calculation requires the management of the Group to estimate the future cash flows expected to arise from the CGU, which includes key assumptions for cash flow projections, including yearly growth rates of revenue, gross margin, discount rate and management's expectation of market conditions. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As set out in notes 15 and 16 to the consolidated financial statements, the carrying amounts of goodwill and the intangible asset with indefinite useful life are US$74,941,000 and US$31,777,000, respectively, at 31 December 2019.

The management of the Group determined that there was no impairment in the CGU containing goodwill and the intangible asset with indefinite useful life during the year ended 31 December 2019.

Our procedures in relation to the impairment assessment of goodwill and the intangible asset with indefinite useful life included:

- Understanding the entity's key control in relation to the impairment assessment of goodwill and the intangible asset with indefinite useful life, including the process of preparation of the future cash flow projections and key assumptions adopted by management in the cash flow projections;

- Evaluating the appropriateness of the key assumptions in the cash flow projections, including yearly growth rates of revenue, gross margin and management's expectation of market conditions by reference to the historical performance, future business plan of the Group as well as industrial trends;

- Involving our internal valuation expert to evaluate the appropriateness of the valuation methodology and the reasonableness of the discount rate used by management by performing re-calculations based on market data and certain company specific parameters;

- Obtaining the sensitivity analysis performed by management and assessing the extent of impact on the value in use; and

- Evaluating the historical accuracy of the forecasted cash flows by comparing them to actual results in the current year.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of the net realisable value of inventories	
We identified the assessment of the net realisable value of inventories as a key audit matter due to the significance of the balance to the consolidated statement of financial position as a whole and the management judgment involved in the determination of the net realisable value. As disclosed in notes 4 and 19 to the consolidated financial statements, inventories are carried at US$275,539,000, which represent approximately 31% and 15% of the Group's current assets and total assets at 31 December 2019, respectively. An expense of US$12,920,000 was recognised in profit or loss to write down the cost of inventories to their net realisable values during the year ended 31 December 2019. As disclosed in note 4 to the consolidated financial statements, the management identified slow-moving and obsolete inventories based on the aged analysis of inventory and recent or subsequent usages/sales and determined the write-down of inventories based on latest selling prices and market conditions.	Our procedures in relation to the assessment of the net realisable value of inventories included: • Obtaining an understanding of the management's process in identifying slow-moving and obsolete inventories and determining the net realisable value of inventories; • Engaging our internal IT specialists to test the accuracy of the inventories aging list in the system generated report and assessing whether slow-moving and obsolete inventories were properly identified after taking into account subsequent sales of finished goods and subsequent usage and consumption of raw materials and work in progress; • Comparing the actual selling prices of finished goods subsequent to year end, on a sample basis, to their carrying amounts to check whether the finished goods are stated at the lower of cost and net realisable value; and • Assessing the historical accuracy of the write-down of inventories to evaluate the appropriateness of the basis used by management in the current year.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tse Fung Chun.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	**2019 US$'000**	2018 US$'000
Revenue	5	**2,427,723**	2,495,966
Cost of sales		**(1,965,033)**	(2,026,244)
Gross profit		**462,690**	469,722
Other income, gains or losses		**13,236**	15,164
Selling and distribution expenses		**(27,621)**	(42,836)
Administrative and other expenses		**(259,195)**	(255,814)
Finance costs		**(17,271)**	(17,859)
Share of results of an associate		**2,483**	1,623
Profit before tax	6	**174,322**	170,000
Income tax expense	8	**(22,418)**	(20,808)
Profit for the year		**151,904**	149,192
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**(7,142)**	(23,266)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit assets/liabilities	27	**2,364**	(178)
Deferred tax expense arising on defined benefit assets/liabilities		**(532)**	(105)
Surplus on revaluation of properties		**3,785**	6,582
Deferred tax expense arising on revaluation of properties		**(160)**	(1,416)
		5,457	4,883
Other comprehensive expense for the year		**(1,685)**	(18,383)
Total comprehensive income for the year		**150,219**	130,809
Earnings per share (US cents)	9		
— basic		**5.33**	5.24
— diluted		**5.33**	5.23

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 US$'000	2018 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**671,120**	670,731
Right-of-use assets	12	**61,261**	–
Deposits paid for acquisition of property, plant and equipment	13	**11,193**	6,419
Prepaid lease payments	14	**–**	37,298
Goodwill	15	**74,941**	74,941
Intangible assets	16	**90,776**	95,693
Defined benefit assets	27	**3,238**	–
Interest in an associate	17	**19,081**	16,638
Loan receivables	18	**2,063**	1,861
		933,673	903,581
Current assets			
Inventories	19	**275,539**	277,807
Right-of-use assets	12	**3,763**	–
Prepaid lease payments	14	**–**	960
Trade, bills and other receivables	20	**326,992**	337,220
Trade receivables at fair value through other comprehensive income	21	**6,515**	10,697
Amounts due from related companies	31	**1,506**	733
Loan receivables	18	**1,023**	674
Tax recoverable		**317**	5,954
Bank balances and cash	22	**266,840**	302,326
		882,495	936,371
Total assets		**1,816,168**	1,839,952

At 31 December 2019

	Notes	2019 US$'000	2018 US$'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	**3,654**	3,654
Reserves		**1,084,364**	982,785
Total equity		**1,088,018**	986,439
Non-current liabilities			
Other payables	24	**1,300**	4,190
Lease liabilities	25	**16,458**	–
Deferred taxation	26	**32,645**	32,685
		50,403	36,875
Current liabilities			
Trade, bills and other payables	24	**356,401**	360,246
Lease liabilities	25	**13,073**	–
Amount due to an associate	30	**11,862**	3,607
Derivative financial instruments	29	**–**	7,462
Tax liabilities		**18,970**	10,911
Bank borrowings	28	**277,441**	434,412
		677,747	816,638
Total equity and liabilities		**1,816,168**	1,839,952

The consolidated financial statements on pages 53 to 139 were approved and authorised for issue by the Board of Directors on 19 March 2020 and are signed on its behalf by:

LO Lok Fung Kenneth
DIRECTOR

LO CHOY Yuk Ching Yvonne
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital US$'000	Share premium US$'000	Property revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Share award reserve US$'000	Other reserve US$'000	Retained profits US$'000	Total US$'000
At 31 December 2018	3,654	502,850	68,262	(73,536)	9,903	1,671	–	473,635	986,439
Adjustment (note 2)	–	–	–	–	–	–	–	(4,656)	(4,656)
At 1 January 2019 (restated)	3,654	502,850	68,262	(73,536)	9,903	1,671	–	468,979	981,783
Profit for the year	–	–	–	–	–	–	–	151,904	151,904
Exchange difference arising on translation of foreign operations	–	–	–	(7,142)	–	–	–	–	(7,142)
Remeasurement of defined benefit assets	–	–	–	–	–	–	–	2,364	2,364
Deferred tax expense arising on defined benefit assets	–	–	–	–	–	–	–	(532)	(532)
Surplus on revaluation of properties	–	–	3,785	–	–	–	–	–	3,785
Deferred tax expense arising on revaluation of properties	–	–	(160)	–	–	–	–	–	(160)
Total comprehensive income (expense) for the year	–	–	3,625	(7,142)	–	–	–	153,736	150,219
Recognition of equity-settled share-based payment expense (note 32)	–	–	–	–	–	858	–	–	858
Vesting of shares in connection with Share Award Scheme B	–	2,529	–	–	–	(2,529)	–	–	–
Sale of lapsed shares held by the Trustee under Share Award Scheme B ("**Lapsed Shares**")	–	298	–	–	–	–	–	–	298
Dividend paid (note 10)	–	–	–	–	–	–	–	(45,140)	(45,140)
At 31 December 2019	3,654	505,677	71,887	(80,678)	9,903	–	–	577,575	1,088,018

For the year ended 31 December 2019

	Share capital US$'000	Share premium US$'000	Property revaluation reserve US$'000	Exchange reserve US$'000	Capital reserve US$'000	Share award reserve US$'000	Other reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2018	3,654	499,808	63,096	(50,270)	9,903	773	(5,262)	389,066	910,768
Profit for the year	–	–	–	–	–	–	–	149,192	149,192
Exchange difference arising on translation of foreign operations	–	–	–	(23,266)	–	–	–	–	(23,266)
Remeasurement of defined benefit liabilities	–	–	–	–	–	–	–	(178)	(178)
Deferred tax expense arising on defined benefit liabilities	–	–	–	–	–	–	–	(105)	(105)
Surplus on revaluation of properties	–	–	6,582	–	–	–	–	–	6,582
Deferred tax expense arising on revaluation of properties	–	–	(1,416)	–	–	–	–	–	(1,416)
Total comprehensive income (expense) for the year	–	–	5,166	(23,266)	–	–	–	148,909	130,809
Recognition of equity-settled share-based payment expense (note 32)	–	–	–	–	–	3,940	–	–	3,940
Vesting of shares in connection with Share Award Scheme B	–	3,042	–	–	–	(3,042)	–	–	–
Transfer upon strike-off of subsidiaries	–	–	–	–	–	–	5,262	(5,262)	–
Dividend paid (note 10)	–	–	–	–	–	–	–	(59,078)	(59,078)
At 31 December 2018	3,654	502,850	68,262	(73,536)	9,903	1,671	–	473,635	986,439

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 US$'000	2018 US$'000
OPERATING ACTIVITIES		
Profit before tax	**174,322**	170,000
Adjustments for:		
Interest income	**(1,961)**	(4,162)
Finance costs	**17,271**	17,859
Depreciation of property, plant and equipment	**78,002**	67,860
Depreciation of right-of-use assets	**14,622**	–
Amortisation of prepaid lease payments	**–**	1,004
Amortisation of intangible asset	**4,917**	4,917
Net loss arising from changes in fair value/derecognition of derivative financial instruments	**1,438**	7,340
Loss on disposals of property, plant and equipment	**3,651**	164
Gain on derecognition of right-of-use assets	**(20)**	–
Share of results of an associate	**(2,483)**	(1,623)
Write-down of inventories	**12,920**	9,293
Impairment loss recognised (reversal) in respect of property, plant and equipment	**2,116**	(4,732)
Share-based payment expense	**858**	3,940
Operating cash flows before movements in working capital	**305,653**	271,860
Increase in inventories	**(10,498)**	(41,216)
Decrease (increase) in trade, bills and other receivables	**8,767**	(4,569)
Decrease (increase) in trade receivables at fair value through other comprehensive income	**4,182**	(10,697)
Decrease in amount due from an associate	**–**	525
(Increase) decrease in amounts due from related companies	**(769)**	493
Increase in defined benefit assets	**(777)**	–
Increase in trade, bills and other payables	**7,952**	45,636
Increase in amount due to an associate	**8,255**	3,607
Decrease in defined benefit liabilities	**–**	(449)
Cash generated from operations	**322,765**	265,190
Profits tax paid	**(9,307)**	(34,289)
NET CASH FROM OPERATING ACTIVITIES	**313,458**	230,901

For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
INVESTING ACTIVITIES			
Payment for property, plant and equipment		**(110,289)**	(171,757)
(Payments) receipts on settlement of derivative financial instruments		**(8,884)**	108
Loan receivables advanced		**(1,307)**	–
Proceeds on disposal of property, plant and equipment		**6,292**	2,161
Interest received		**1,961**	4,162
Loan receivables received		**741**	692
New short-term bank deposit placed		**–**	(38,234)
Purchase of prepaid lease payments		**–**	(4,526)
Withdrawal of short-term bank deposit		**–**	34,986
NET CASH USED IN INVESTING ACTIVITIES		**(111,486)**	(172,408)
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(581,265)**	(552,816)
Dividend paid		**(45,140)**	(59,078)
Interest paid		**(17,271)**	(17,859)
Repayment of lease liabilities		**(14,826)**	–
New bank borrowings raised		**418,633**	458,314
Proceeds from sale of Lapsed Shares		**298**	–
NET CASH USED IN FINANCING ACTIVITIES		**(239,571)**	(171,439)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(37,599)**	(112,946)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(2,081)**	141
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**299,891**	412,696
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by		**260,211**	299,891
Bank balances and cash		**266,840**	302,326
Bank overdrafts	28	**(6,629)**	(2,435)
		260,211	299,891

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

Crystal International Group Limited (the "**Company**") was previously incorporated in Bermuda as an exempted company with limited liability and registered by way of continuation in the Cayman Islands as an exempted company with limited liability. The address of the registered office of the Company is Ugland House, P.O. Box 309, Grand Cayman KY1-1104, Cayman Islands and the principal place of business of the Company is 3/F, Crystal Industrial Building, 71 How Ming Street, Kwun Tong, Hong Kong.

As detailed in the voluntary announcement made by the Company on 18 March 2019, Crystal Group Limited (previously incorporated in Bermuda and redomiciled in the Cayman Islands), the former parent and ultimate holding company of the Company, distributed all the shares in the Company held by Crystal Group Limited equally to its controlling shareholders, Mr. LO Lok Fung Kenneth and Mrs. LO CHOY Yuk Ching Yvonne (together, "**Mr. and Mrs. Lo**"), both executive directors of the Company ("**Share Transfer**"). Upon the completion of the Share Transfer, Crystal Group Limited was no longer the parent and ultimate holding company of the Company. The ultimate controlling parties of the Company are Mr. and Mrs. Lo.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 November 2017.

The consolidated financial statements are presented in United States dollars ("**US$**"), which is also the functional currency of the Company.

The Company is an investment holding company and the principal activities of its principal subsidiaries and associate are set out in notes 40 and 17 respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 16 "Leases"

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 "Leases" ("**IAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" and not apply these standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group assesses whether a contract contains a lease based on the definition under IFRS 16.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

At 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group has applied the following practical expedients to leases previously classified as operating leases under IAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. the exclusion of initial direct costs for measurement of the right-of-use assets at the date of initial application; and

ii. the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied was 6.29% per annum.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 *IFRS 16 "Leases"* (Continued)

As a lessee (Continued)

	At 1 January 2019 US$'000
Operating lease commitments at 31 December 2018	29,915
Lease liabilities discounted at relevant incremental borrowing rates	(2,962)
Early termination options reasonably certain to be exercised	(933)
Extension options reasonably certain to be exercised	3,420
Lease liabilities relating to operating leases recognised upon application of IFRS 16 at 1 January 2019	29,440
Analysed as:	
Current	11,634
Non-current	17,806
	29,440

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

	Right-of-use assets US$'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	24,784
Reclassified from prepaid lease payments (note a)	38,258
Reclassified from trade, bills and other receivables (note b)	1,711
	64,753
Analysed as:	
Current	162
Non-current	64,591
	64,753

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 *IFRS 16 "Leases"* (Continued)

As a lessee (Continued)

Notes:

(a) Certain upfront payments for leasehold lands were classified as prepaid lease payments at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to US$960,000 and US$37,298,000, respectively, were reclassified to right-of-use assets.

(b) At 31 December 2018, the Group's advance rental payments for certain leases were included in trade, bills and other receivables. Upon application of IFRS 16, the advance rental payments amounting to US$1,711,000 were reclassified to right-of-use assets.

The following table summarises the impact of transition to IFRS 16 on retained profits at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019 US$'000
Retained profits	
Decrease upon application of IFRS 16 (note)	4,656

Note: The amount represents the difference between the rental expenses charged to profit or loss under IAS 17 and the aggregate amount of depreciation of right-of-use assets and interest expense on lease liabilities under IFRS 16 if IFRS 16 had been applied since the commencement dates of the leases.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 *IFRS 16 "Leases"* (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under IFRS 16 at 1 January 2019
	US$'000	US$'000	US$'000
Non-current Assets			
Prepaid lease payments	37,298	(37,298)	–
Right-of-use assets	–	64,591	64,591
Current Assets			
Prepaid lease payments	960	(960)	–
Right-of-use assets	–	162	162
Trade, bills and other receivables	337,220	(1,711)	335,509
Total effect on assets	375,478	24,784	400,262
Capital and Reserves			
Retained profits	(473,635)	4,656	(468,979)
Current Liabilities			
Lease liabilities	–	(11,634)	(11,634)
Non-current Liabilities			
Lease liabilities	–	(17,806)	(17,806)
Total effect on equity and liabilities	(473,635)	(24,784)	(498,419)

Note: For the purpose of reporting cash flows from operating activities under the indirect method for the year ended 31 December 2019, movements in working capital have been computed based on the opening consolidated statement of financial position at 1 January 2019 disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendment to IAS 1	Classification of Liabilities as Current or Non-Current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the "Amendments to References to the Conceptual Framework in IFRS Standards", will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace the threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

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.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination, which represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment.

A CGU or groups of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU or groups of CGUs to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or groups of CGUs.

On disposal of the relevant CGU or any of the CGUs within the groups of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU or a CGU within the groups of CGUs, the amount of goodwill disposed of is measured on the basis of the relative values of the operation or the CGU disposed of and the portion of the CGU or the groups of CGUs retained.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using accounting policies that are uniform with those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes result in changes in ownership interest held by the Group. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (the higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9 "Financial Instruments" ("**IFRS 9**"), the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposal of the interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

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

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

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

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

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

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

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue from sales of garments

The Group sells garments directly to its customers and revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the specific location (delivery). Transportation and other related activities that occur before the customers obtain control of the related goods are considered as fulfilment activities. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on-selling the goods and bears the risks of obsolescence and loss in relation to the goods. The Group allows credit periods ranging from 14 to 120 days to its trade customers.

The contracts for sales of garments are for periods of one year or less. As permitted under IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), the transaction price allocated to the unsatisfied contracts is not disclosed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at the inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies a practical expedient not to separate non-lease components from the lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which they are located or restoring the underlying assets to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of their lease term are depreciated from commencement date to the end of the useful lives. Otherwise, right-of-use assets are depreciated on a straight line basis over the shorter of their estimated useful lives and the lease term.

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

Refundable rental deposits

Refundable rental deposits paid are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments which are payments that may, in form, contain variability but that, in substance, are unavoidable) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the Group considers it will probably exercise the termination option.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets.

The Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a modification is made to a lease that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Lease modifications (Continued)

The Group accounts for the remeasurement of lease liabilities and lease incentives from a lessor by making corresponding adjustments to the relevant right-of-use assets or non-lease components. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group pays for ownership interests of properties which include both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between the non-lease building element and the undivided interest in the underlying leasehold land, the entire consideration is classified as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Ownership interests in leasehold land and building (Continued)

Any revaluation increase arising on the revaluation of land and buildings is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, any attributable revaluation surplus is transferred to retained profits.

Depreciation is recognised to write off the cost or revalued amounts of items of property, plant and equipment (other than construction in progress and freehold land) less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an expense in the period in which it is incurred when there is no internally-generated intangible asset arising from development activities.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. For corporate assets or a portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of groups of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to those groups of CGUs, with the recoverable amount of the groups of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or groups of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or groups of CGUs. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or groups of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU or groups of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation of which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes financial assets), all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied on the same taxable entity by the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant taxation authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs and termination benefits

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

For the defined benefit plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the annual reporting period.

Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest on the net defined benefit liabilities/assets), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, the Group remeasures the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, in valuing plan liabilities and the consequent plan surplus or deficit before and after the plan amendment, curtailment or settlement without considering the effect of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits (Continued)

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before the plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan liabilities and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

The retirement benefit obligation or asset recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plan. Any such surplus is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Termination benefits result from either the Group's decision to terminate the employment or an employee's decision to accept the Group's offer of benefits in exchange for termination of employment. The Group recognises a liability for benefits at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees render the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed to profit or loss on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (capital reserve or share award reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share award reserve.

For grants of shares that vest immediately at the date of grant, the fair value of the awarded shares is recognised immediately in profit or loss.

When the awarded shares vest and are transferred to the awardees, the amount previously recognised in the share award reserve is transferred to share premium.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

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

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**").

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income ("**OCI**"). Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets

The Group performs impairment assessment under the expected credit loss ("**ECL**") model on financial assets (including trade, bills and other receivables, trade receivables at FVTOCI, loan receivables, amounts due from related companies and bank balances) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

The Group always recognises lifetime ECL for trade receivables without any significant financing component. The ECL on these assets is assessed individually for debtors with significant balances.

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

(ii) Definition of default

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

Irrespective of the above assessment, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

Except for trade receivables at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For trade receivables at FVTOCI, the loss allowance is recognised in OCI and accumulated in the financial instruments revaluation reserve without reducing the carrying amount of these receivables.

Derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities other than derivatives (including trade, bills and other payables, amount due to an associate and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is credited or charged to profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Determination on lease terms of contracts with extension or termination options

The Group applies judgment to determine the lease terms for lease contracts in which it is a lessee that include extension or termination options. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Leases are considered no longer enforceable when the Group as the lessee and lessors both have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

The assessment of whether the Group is reasonably certain to exercise extension or termination options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed when a significant event or a significant change in circumstances occurs affecting the assessment and that is within the control of the lessee.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below market rates);

- the extent of leasehold improvements undertaken by the Group; and

- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

Key sources of estimation uncertainty

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

Impairment assessment of goodwill and intangible assets

Customer relationships with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable at the end of the reporting period. In the opinion of the directors of the Company, there are no indicators of impairment (including adverse changes to financial performance such as profit margin, adverse changes to continuing customer portfolios etc.) identified for customer relationships at 31 December 2019.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment assessment of goodwill and intangible assets (Continued)

Goodwill and brand name with an indefinite useful life are reviewed for impairment annually, irrespective of whether there is any indication that they may be impaired. Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the CGU to which the goodwill and intangible assets have been allocated. The recoverable amount of the CGU at the end of the reporting period is based on the higher of the fair value less costs of disposal and value in use. The value in use calculation requires the management of the Group to estimate the future cash flows expected to arise from the CGU, which includes key assumptions for cash flow projections including yearly growth rates of revenue, gross margin, discount rate and management's expectation of market conditions. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The Group has not recognised an impairment loss during the year since the recoverable amount of the CGU of Vista Corp Holdings Limited ("**Vista**"), which includes goodwill and brand name, exceeds its carrying amount.

At 31 December 2019, the carrying amounts of goodwill and intangible assets are US$74,941,000 and US$90,776,000 (2018: US$74,941,000 and US$95,693,000), respectively (see notes 15 and 16).

Assessment of the net realisable value of inventories

Inventories are stated at the lower of cost and net realisable values. The management of the Group is required to exercise judgment in identifying slow-moving and obsolete inventories and determine the write-down of inventories based on the latest selling price and market conditions at the end of the year. The identification of slow-moving and obsolete inventories is based on the aged analysis of inventory and recent or subsequent usage/sales. When the actual net realisable values are lower than expectation, such difference will impact the carrying amounts of inventories.

At 31 December 2019, the carrying amount of inventories is US$275,539,000 (2018: US$277,807,000) (see note 19). During the year ended 31 December 2019, an expense of US$12,920,000 (2018: US$9,293,000) was recognised in profit or loss to write down the cost of inventories to their net realisable values.

Depreciation

The Group depreciates property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method. The estimated useful lives reflect the estimates of the directors of the Company of the periods based on the Group's historical experience with similar assets. The residual value reflects their estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal.

Details of depreciation policies are set out in note 11.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Fair value measurement of land and buildings

Certain of the Group's land and buildings are measured at fair value for financial reporting purposes. The directors of the Company are responsible for determining the appropriate valuation techniques and inputs for fair value measurement.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of properties. Note 11 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of fair value of the properties.

At 31 December 2019, the carrying amounts of the land and buildings at valuation are approximately US$327,104,000 (2018: US$270,359,000) (see note 11).

Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at cost less accumulated depreciation and impairment, if any. The directors of the Company review their carrying amounts whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable at the end of the reporting period. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In determining whether an asset is impaired, the directors of the Company have to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the directors of the Company estimate the recoverable amount of the CGU to which the asset belongs. Changing the assumptions and estimates, including the discount rate or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

After considering the events and circumstances mentioned in notes 6 and 11, which indicate the carrying amounts of certain property, plant and equipment may not be recovered, an impairment loss of approximately US$2,116,000 was recognised in profit or loss during the year ended 31 December 2019. In the opinion of the directors of the Company, there was no other indicator of impairment (including obsolescence or physical damage, low utilisation rate of property, plant and equipment etc.) identified for the property, plant and equipment and right-of-use assets at the end of the reporting period.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of property, plant and equipment and right-of-use assets (Continued)

At 31 December 2019, the carrying amounts of property, plant and equipment and right-of-use assets are approximately US$671,120,000 (2018: US$670,731,000) and US$65,024,000 (2018: nil), respectively, after taking into account the impairment loss of US$2,116,000 (2018: reversal of impairment loss of US$4,732,000) in respect of property, plant and equipment that have been recognised during the year ended 31 December 2019 (see notes 11 and 12).

Assessment of the useful lives of intangible assets

Intangible asset with a finite useful life

The intangible asset with a finite useful life of the Group represents the customer relationship arising from the acquisition of Vista which is amortised on a straight line basis over the estimated useful life of the asset. The Group determines the estimated useful life of the customer relationship on initial recognition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful life of the customer relationship was determined with reference to a number of factors, including the useful lives of similar intangible assets in certain comparable transactions, historical customer data, and management's experience and industry knowledge. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. The carrying amount of the customer relationship is US$58,999,000 (2018: US$63,916,000) at 31 December 2019 (see note 16).

Intangible asset with an indefinite useful life

The intangible asset with an indefinite useful life of the Group represents the brand name arising from the acquisition of Vista. Management estimates the useful life of the brand name based on the expected lifespan of the brand name. The brand name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely taking into account the long history of Vista's operation.

The useful life of the brand name could change significantly as a result of the regulatory and commercial environment. When the actual useful life of the brand name due to the change of the regulatory and commercial environment is different from its estimated useful life, such difference will impact the amortisation charges and the amounts of asset written down for future periods. The carrying amount of the brand name is US$31,777,000 (2018: US$31,777,000) at 31 December 2019 (see note 16).

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of garments. All revenue generated by the Group is recognised at the point when control of the goods has transferred to the customers, being when the goods have been shipped to the specific location (delivery).

Information reported to the chief executive officer of the Group, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance, focuses on types of products.

(i) Lifestyle wear

(ii) Denim

(iii) Intimate

(iv) Sportswear and outdoor apparel

(v) Sweater

(vi) Others

These operating segments also represent the Group's reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

Year ended 31 December 2019

	Lifestyle wear US$'000	Denim US$'000	Intimate US$'000	Sportswear and outdoor apparel US$'000	Sweater US$'000	Others US$'000	Total US$'000
SEGMENT REVENUE							
External sales	**941,618**	**583,342**	**427,664**	**244,189**	**223,201**	**7,709**	**2,427,723**
Segment profit	**185,520**	**101,024**	**88,384**	**45,812**	**36,304**	**5,646**	**462,690**
Other income, gains or losses							**13,236**
Selling and distribution expenses							**(27,621)**
Administrative and other expenses							**(259,195)**
Finance costs							**(17,271)**
Share of results of an associate							**2,483**
Profit before tax							**174,322**

Year ended 31 December 2018

	Lifestyle wear US$'000	Denim US$'000	Intimate US$'000	Sportswear and outdoor apparel US$'000	Sweater US$'000	Others US$'000	Total US$'000
SEGMENT REVENUE							
External sales	953,419	630,349	410,896	239,359	251,677	10,266	2,495,966
Segment profit	180,232	112,420	84,279	42,263	42,939	7,589	469,722
Other income, gains or losses							15,164
Selling and distribution expenses							(42,836)
Administrative and other expenses							(255,814)
Finance costs							(17,859)
Share of results of an associate							1,623
Profit before tax							170,000

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of other income, gains or losses, selling and distribution expenses, administrative and other expenses, finance costs, and share of results of an associate. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

No further analysis is presented for certain items included or excluded in the measure of segment result as such information is not regularly provided to the CODM.

Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as such information is not regularly provided to the CODM.

Revenue from major customers

Revenue from a customer individually contributing over 10% of the Group's revenue is as follows:

	Segment	2019 US$'000	2018 US$'000
Customer A	Lifestyle wear, Denim, Intimate, Sportswear and outdoor apparel and Sweater	**919,557**	920,579

Geographical information

Information about the Group's revenue is presented below by geographical location based on port of discharge:

	2019 US$'000	2018 US$'000
Asia Pacific (note i)	**968,345**	986,382
United States	**905,674**	942,360
Europe (note ii)	**440,932**	458,920
Other countries/regions	**112,772**	108,304
	2,427,723	2,495,966

Notes:

(i) Asia Pacific primarily includes Hong Kong, Japan, the People's Republic of China (the "**PRC**") and South Korea.

(ii) Europe primarily includes Belgium, France, Germany, the Netherlands and the United Kingdom (the "**U.K.**").

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information (Continued)

Information about the Group's non-current assets other than defined benefit assets and loan receivables is presented below by geographical location of the assets:

	2019 **US$'000**	2018 US$'000
Asia Pacific (note i)	**920,948**	894,801
Europe (note ii)	**7,424**	6,919
	928,372	901,720

Notes:

(i) Asia Pacific primarily includes Bangladesh, Cambodia, Hong Kong, the PRC, Singapore, Sri Lanka and Vietnam.

(ii) Europe primarily includes the U.K..

6. PROFIT BEFORE TAX

	2019 US$'000	2018 US$'000
Profit before tax has been arrived at after charging (crediting):		
Directors' emoluments (note 7)	**6,638**	5,176
Other staff costs	**529,860**	564,867
Redundancy costs (note)	**11,941**	–
Retirement benefit schemes contributions for other staff	**50,290**	49,715
Total staff costs	**598,729**	619,758
Auditors' remuneration:		
— audit services	**1,066**	1,077
— non-audit services	**354**	522
Amortisation of prepaid lease payments	**–**	1,004
Cost of inventories recognised as expenses	**1,952,113**	2,016,951
Write-down of inventories	**12,920**	9,293
Depreciation of property, plant and equipment	**78,002**	67,860
Depreciation of right-of-use assets	**14,622**	–
Impairment loss recognised (reversal) in respect of property, plant and equipment (note)	**2,116**	(4,732)
Amortisation of intangible asset (included in selling and distribution expenses)	**4,917**	4,917
Loss on disposals of property, plant and equipment	**3,651**	164
Gain on derecognition of right-of-use assets	**(20)**	–
Net loss arising from changes in fair value/derecognition of derivative financial instruments	**1,438**	7,340
Interest income	**(1,961)**	(4,162)
Net foreign exchange loss	**1,436**	3,172
Research and development expenses	**38,996**	40,639
Finance costs:		
— interest expense on lease liabilities	**2,143**	–
— interest on bank borrowings	**15,128**	17,859

Note: As detailed in the voluntary announcement made by the Company on 12 June 2019, the directors of the Company have reviewed the Group's manufacturing platform and have decided to increase the pace of the program of reallocation of production capacity from the PRC to non-PRC production bases (the "**Reallocation Program**"). During the year ended 31 December 2019, as a result of the Reallocation Program, an aggregate amount of US$14,057,000, including redundancy costs amounting to US$11,941,000 and impairment loss recognised in respect of property, plant and equipment amounting to US$2,116,000, has been charged to profit or loss.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of the emoluments paid or payable to the directors of the Company during the current year are as follows:

	Fees US$'000	Salaries and allowances US$'000	Performance-based bonuses US$'000 (note iii)	Retirement benefit schemes contributions US$'000	Total US$'000
For the year ended 31 December 2019					
Executive directors (note i):					
Mr. LO Lok Fung Kenneth	–	772	–	–	772
Mrs. LO CHOY Yuk Ching Yvonne	–	365	–	–	365
Mr. LO Ching Leung Andrew (note iv)	–	809	1,411	15	2,235
Mr. WONG Chi Fai	–	355	554	20	929
Mr. WONG Sing Wah	–	730	1,336	39	2,105
Independent non-executive directors (note ii):					
Mr. GRIFFITHS Anthony Nigel Clifton	74	–	–	–	74
Mr. TSE Man Bun Benny	50	–	–	–	50
Mr. CHANG George Ka Ki	52	–	–	–	52
Mr. MAK Wing Sum Alvin	56	–	–	–	56
	232	3,031	3,301	74	6,638

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' emoluments (Continued)

	Fees US$'000	Salaries and allowances US$'000	Performance-based bonuses US$'000 (note iii)	Retirement benefit schemes contributions US$'000	Total US$'000
For the year ended 31 December 2018					
Executive directors (note i):					
Mr. LO Lok Fung Kenneth	–	1,004	–	–	1,004
Mrs. LO CHOY Yuk Ching Yvonne	–	365	–	–	365
Mr. LO Ching Leung Andrew (note iv)	–	956	478	23	1,457
Mr. WONG Chi Fai	–	583	247	32	862
Mr. WONG Sing Wah	–	791	423	42	1,256
Independent non-executive directors (note ii):					
Mr. GRIFFITHS Anthony Nigel Clifton	74	–	–	–	74
Mr. TSE Man Bun Benny	50	–	–	–	50
Mr. CHANG George Ka Ki	52	–	–	–	52
Mr. MAK Wing Sum Alvin	56	–	–	–	56
	232	3,699	1,148	97	5,176

Notes:

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

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

(iii) The amounts represent performance-based bonuses paid to the directors to reward their contributions to the Group, based on the performance of the Group.

(iv) Mr. LO Ching Leung Andrew is also the Chief Executive Officer of the Company during the years ended 31 December 2019 and 2018.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

The Group has been providing accommodation, which is leased from companies controlled by certain directors of the Company, for directors and their family members to use at no charge. The estimated money value of the benefit in kind is approximately US$1,248,000 (2018: US$1,250,000).

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid individuals' emoluments

The five individuals with the highest emoluments in the Group include 3 (2018: 3) directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2019 US$'000	2018 US$'000
Salaries and allowances	**2,673**	3,531
Performance-based bonuses (note)	**4,225**	1,828
Retirement benefit schemes contributions	**103**	95
Share-based payment expense	**119**	194
	7,120	5,648

Note: The amounts represent performance-based bonuses paid to the five highest paid individuals to reward their contributions to the Group.

Their emoluments were within the following bands (presented in HK$):

	Number of directors		**Number of employees**	
	2019	2018	**2019**	2018
HK$6,500,001 to HK$7,000,000	**–**	–	**1**	1
HK$7,000,001 to HK$7,500,000	**1**	–	**–**	–
HK$7,500,001 to HK$8,000,000	**–**	1	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	–	**–**	1
HK$9,500,001 to HK$10,000,000	**–**	1	**–**	–
HK$11,000,001 to HK$11,500,000	**–**	1	**–**	–
HK$16,000,001 to HK$16,500,000	**1**	–	**–**	–
HK$17,500,001 to HK$18,000,000	**1**	–	**–**	–
	3	3	**2**	2

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended 31 December 2019 and 2018.

8. INCOME TAX EXPENSE

	2019	2018
	US$'000	US$'000
The income tax expense comprises:		
Hong Kong Profits Tax		
— current year	**10,222**	8,977
— under(over)provision in prior years	**95**	(59)
Overseas taxation		
— current year	**12,403**	12,129
— under(over)provision in prior years	**256**	(822)
	22,976	20,225
Deferred taxation (note 26)	**(558)**	583
	22,418	20,808

In March 2018, the Hong Kong Government introduced the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity are taxed at 8.25%, and profits above HK$2 million are taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

The directors of the Company consider the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

All the Group's subsidiaries incorporated in Macau are registered and regulated by the Decree Law No. 58/99/M applicable to Macao offshore commercial activities and are exempted from Macao Complementary Tax.

Certain subsidiaries incorporated in Cambodia are exempted from tax on profit while they fulfil certain requirements pursuant to the relevant laws and regulations in Cambodia.

8. INCOME TAX EXPENSE (Continued)

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

	2019	2018
	US$'000	US$'000
Profit before tax	**174,322**	170,000
Tax at the Hong Kong Profits Tax rate of 16.5%	**28,763**	28,050
Tax effect of expenses not deductible for tax purpose	**9,473**	5,294
Tax effect of income not taxable for tax purpose	**(1,674)**	(1,861)
Tax effect of tax losses not recognised	**–**	785
Utilisation of tax losses previously not recognised	**(1,552)**	(972)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**622**	3,635
Effect of tax exemptions granted to subsidiaries operating in other jurisdictions	**(13,565)**	(13,242)
Under(over)provision in prior years	**351**	(881)
Income tax expense for the year	**22,418**	20,808

Details of deferred taxation are set out in note 26.

For the year ended 31 December 2019

9. EARNINGS PER SHARE

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

	2019	2018
	US$'000	US$'000
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	**151,904**	149,192
	'000	'000
Number of shares:		
Number of ordinary shares in issue (note a)	**2,852,822**	2,852,822
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (note b)	**2,849,170**	2,845,168
Effect of dilutive potential ordinary shares:		
— Share Award Scheme B	**3,139**	6,013
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,852,309**	2,851,181

Notes:

(a) In November 2017, the Company issued 13,062,000 ordinary shares to the participants under the Share Award Scheme B and held by the Trustee (as defined in note 32) until the participants fulfilled the condition of service period specified in the Share Award Scheme B. At 31 December 2019, the number of shares held by the Trustee under the Share Award Scheme B is nil (2018: 4,261,500). For illustration purpose, the earnings per ordinary share in issue is US5.32 cents (2018: US5.23 cents).

(b) The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been arrived at after deducting the number of shares held by the Trustee of Share Award Scheme B as set out in note 32.

10. DIVIDENDS

	2019 **US$'000**	2018 US$'000
Final, paid — HK8.4 cents per ordinary share for 2018 (2018: HK12.3 cents per ordinary share for 2017)	**30,618**	44,582
Interim, paid — HK4 cents per ordinary share for 2019 (2018: HK4 cents per ordinary share for 2018)	**14,522**	14,496
	45,140	59,078

A final dividend of HK8.5 cents (2018: HK8.4 cents) per ordinary share in total of approximately HK$242,490,000 (equivalent to approximately US$31,137,000) (2018: HK$239,279,000 (equivalent to approximately US$30,618,000)), in respect of the year ended 31 December 2019 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

For the year ended 31 December 2019

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and owned properties US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture, fixtures and office equipment US$'000	Motor vehicles US$'000	Computer equipment and software US$'000	Construction in progress US$'000	Total US$'000
COST OR VALUATION								
At 1 January 2018	269,808	58,707	308,848	95,088	6,975	38,578	65,528	843,532
Exchange realignment	(7,155)	(2,370)	(10,163)	(4,303)	(80)	(883)	(1,567)	(26,521)
Additions	11,221	5,724	47,539	5,458	569	4,694	97,534	172,739
Transfers	9,599	1,701	13,459	1,470	109	801	(27,139)	–
Disposals	(400)	–	(4,879)	(2,524)	(137)	(1,641)	–	(9,581)
Deficit on revaluation	(2,205)	–	–	–	–	–	–	(2,205)
At 31 December 2018	280,868	63,762	354,804	95,189	7,436	41,549	134,356	977,964
Exchange realignment	(2,777)	(639)	(2,449)	(810)	(33)	(150)	(810)	(7,668)
Additions	4,989	1,401	35,695	4,085	456	2,682	41,717	91,025
Transfers	66,075	428	22,797	4,396	(10)	945	(94,631)	–
Disposals	(97)	(4,462)	(12,260)	(5,057)	(353)	(1,021)	–	(23,250)
Deficit on revaluation	(7,044)	–	–	–	–	–	–	(7,044)
At 31 December 2019	342,014	60,490	398,587	97,803	7,496	44,005	80,632	1,031,027
Comprising:								
At cost	14,910	60,490	398,587	97,803	7,496	44,005	80,632	703,923
At valuation	327,104	–	–	–	–	–	–	327,104
At 31 December 2019	342,014	60,490	398,587	97,803	7,496	44,005	80,632	1,031,027
Comprising:								
At cost	10,509	63,762	354,804	95,189	7,436	41,549	134,356	707,605
At valuation	270,359	–	–	–	–	–	–	270,359
At 31 December 2018	280,868	63,762	354,804	95,189	7,436	41,549	134,356	977,964
DEPRECIATION AND IMPAIRMENT								
At 1 January 2018	1,762	29,843	140,580	64,987	4,319	27,603	–	269,094
Exchange realignment	(92)	(1,118)	(4,525)	(2,493)	(42)	(676)	–	(8,946)
Reversal of impairment loss recognised (note i)	–	(984)	(3,397)	(151)	(83)	(117)	–	(4,732)
Provided for the year	10,072	8,308	32,767	10,405	1,011	5,297	–	67,860
Eliminated on disposals	(35)	–	(3,426)	(2,178)	(132)	(1,485)	–	(7,256)
Eliminated on revaluation	(8,787)	–	–	–	–	–	–	(8,787)
At 31 December 2018	2,920	36,049	161,999	70,570	5,073	30,622	–	307,233
Exchange realignment	(875)	(470)	(1,134)	(671)	(33)	(125)	–	(3,308)
Impairment loss recognised (note ii)	–	1,185	669	143	20	99	–	2,116
Provided for the year	11,707	8,376	41,835	9,495	910	5,679	–	78,002
Eliminated on disposals	(85)	(2,511)	(4,701)	(4,801)	(261)	(948)	–	(13,307)
Eliminated on revaluation	(10,829)	–	–	–	–	–	–	(10,829)
At 31 December 2019	2,838	42,629	198,668	74,736	5,709	35,327	–	359,907
CARRYING VALUES								
At 31 December 2019	339,176	17,861	199,919	23,067	1,787	8,678	80,632	671,120
At 31 December 2018	277,948	27,713	192,805	24,619	2,363	10,927	134,356	670,731

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(i) For the year ended 31 December 2018, as a result of the assessment of the usage of the related property, plant and equipment after taking into account the Group's production capacity, the directors considered that the related property, plant and equipment could be used in the production plants of the Group. The assessment led to the reversal of an impairment loss of approximately US$4,732,000. The recoverable amount of the relevant assets has been determined on the basis of their value in use.

(ii) For the year ended 31 December 2019, as a result of the Reallocation Program, the Group carried out a review of the recoverable amount of the related property, plant and equipment being fair value less costs of disposal. The directors of the Company considered that the recoverable amount of the relevant assets was minimal upon disposal and an impairment loss of approximately US$2,116,000 was fully recognised in profit or loss.

(iii) At 31 December 2019, for buildings with carrying values of US$4,014,000 (2018: US$8,450,000), no real estate title certificate has been issued. The Group is in the process of applying for the building ownership certificates.

The above items of property, plant and equipment, except for freehold land and construction in progress, are depreciated on a straight line basis at the following rates per annum:

Owned properties	1–5%
Leasehold improvements	5–20% or over the term of the relevant lease, if shorter
Plant and machinery	10–50%
Furniture, fixtures and office equipment	12½–50%
Motor vehicles	20–25%
Computer equipment and software	20–33½%

Fair value measurement of the Group's owned properties

Certain of the Group's owned properties were valued on 31 December 2018 and 2019 by independent firms of professional property valuers not related to the Group. The fair values of the owned properties in Bangladesh, Cambodia, Singapore, Sri Lanka and the U.K. were determined based on the market comparable approach reflecting recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the owned properties under review. The fair values of the owned properties in the PRC and Vietnam were determined based on the depreciated replacement cost approach by estimating the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key unobservable inputs used in valuing the land was the price per square metre, which ranged from US$22 to US$76 (2018: US$28 to US$76). A slight increase in the price per square metre used would result in a significant increase in the fair value measurement of the land, and vice versa.

One of the key unobservable inputs used in valuing the buildings was the price per square metre, which ranged from US$79 to US$1,436 (2018: US$71 to US$1,428). A slight increase in the price per square metre used would result in a significant increase in the fair value measurement of the buildings, and vice versa.

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Fair value measurement of the Group's owned properties (Continued)

Details of the Group's owned properties and information about the fair value hierarchy at 31 December 2019 and 2018 are as follows:

	Level 3 US$'000	**Fair value at 31.12.2019 US$'000**	Level 3 US$'000	Fair value at 31.12.2018 US$'000
Owned properties outside Hong Kong	327,104	**327,104**	270,359	270,359

There were no transfers into or out of Level 3 during both years.

Had owned properties at valuation been carried at cost less accumulated depreciation, the aggregate carrying values of owned properties would have been approximately US$252,051,000 (2018: US$194,230,000).

At 31 December 2019, owned properties with carrying values of approximately US$10,540,000 (2018: US$10,303,000) have been pledged to banks to secure general banking facilities granted to the Group.

12. RIGHT-OF-USE ASSETS

	Leasehold land US$'000	**Leasehold buildings** US$'000	**Plant and machinery** US$'000	**Office equipment** US$'000	**Motor vehicles** US$'000	**Total** US$'000
At 1 January 2019						
Carrying amount	39,010	24,943	473	210	117	64,753
At 31 December 2019						
Carrying amount	**42,735**	**20,877**	**500**	**420**	**492**	**65,024**
For the year ended 31 December 2019						
Depreciation charge	**1,176**	**12,411**	**527**	**119**	**389**	**14,622**

12. RIGHT-OF-USE ASSETS (Continued)

	31.12.2019 US$'000
Analysed for reporting purposes as:	
Non-current assets	**61,261**
Current assets	**3,763**
	65,024

During the year ended 31 December 2019, the total cash outflows for leases and additions to right-of-use assets were US$16,969,000 and US$15,315,000, respectively.

The Group has leased various offices, factories, warehouses, equipment and vehicles for its operations. Lease contracts are entered into for fixed term of 2 months to 60 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group has extension and/or termination options for several leases. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

12. RIGHT-OF-USE ASSETS (Continued)

At the lease commencement date, the Group assesses whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options which the Group is not reasonably certain to exercise and (ii) termination options which the Group is not reasonably certain not to exercise is summarised below:

	Lease liabilities recognised at 31 December 2019 US$'000	Potential future lease payments not included in lease liabilities (undiscounted) US$'000
Leasehold buildings	**448**	1,983

The Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there was no such triggering event.

Restrictions on leases

In addition, lease liabilities of US$29,531,000 were recognised with related right-of-use assets of US$26,402,000 at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in note 25.

13. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment and the related capital commitments are disclosed in note 35.

14. PREPAID LEASE PAYMENTS

	2018 US$'000
Analysed for reporting purposes as:	
Non-current assets	37,298
Current assets	960
	38,258

15. GOODWILL

	US$'000
COST	
At 1 January 2018, 31 December 2018 and 31 December 2019	74,941

For the purpose of impairment testing, goodwill and brand name (note 16) of approximately US$74,941,000 (2018: US$74,941,000) and US$31,777,000 (2018: US$31,777,000), respectively, have been allocated to the CGU representing Vista.

The recoverable amount of the CGU of Vista at 31 December 2019 has been calculated based on its value in use calculation. That calculation uses cash flow projections based on financial projections approved by management of the Group covering a five-year period with a pre-tax discount rate of 14.2% (2018: 15.6%), yearly growth rate of revenue of 10% to 15% (2018: 0% to 10%) and gross margins of 16.5% to 17.5% (2018: 18.8% to 19.4%). Cash flows beyond the five-year period are extrapolated using a steady 3% (2018: 3%) growth rate. Other key assumptions for the value in use calculation relate to the estimation of cash flows, which includes projected sales. The estimation of the key assumptions is based on past performance of Vista and management's expectations of market conditions. The Group has not recognised an impairment loss during the year ended 31 December 2019 (2018: nil) based on the impairment assessment performed.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU of Vista to exceed the recoverable amount of the CGU of Vista. The recoverable amount of the CGU of Vista exceeds its carrying amount by US$82,281,000 (2018: US$17,710,000) at 31 December 2019.

16. INTANGIBLE ASSETS

	Customer relationship US$'000	Brand name US$'000	Total US$'000
COST			
At 1 January 2018, 31 December 2018 and 31 December 2019	73,750	31,777	105,527
AMORTISATION			
At 1 January 2018	4,917	–	4,917
Provided for the year	4,917	–	4,917
At 31 December 2018	9,834	–	9,834
Provided for the year	4,917	–	4,917
At 31 December 2019	14,751	–	14,751
CARRYING VALUE			
At 31 December 2019	58,999	31,777	90,776
At 31 December 2018	63,916	31,777	95,693

For the purpose of impairment testing, brand name has been allocated to the CGU representing Vista (note 15).

Customer relationship and brand name acquired in the business combination are identified and recognised as intangible assets.

The aggregate amount of customer relationship is amortised over the period of the useful lives of the various relationships, which is assessed as being 15 years. Brand name is treated as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely. Therefore, it is not amortised until its useful life is determined to be finite.

Particulars regarding impairment testing of goodwill and other intangible assets are set out in note 15.

17. INTEREST IN AN ASSOCIATE

	2019 US$'000	2018 US$'000
Cost of unlisted investment in an associate	**125**	125
Share of post-acquisition profit (loss) and other comprehensive income (expense)	**331**	(2,112)
	456	(1,987)
Deemed contribution to an associate (note)	**18,625**	18,625
	19,081	16,638

Note: Deemed contribution to an associate represents a loan advanced to an associate which is unsecured, interest-free and without fixed repayment terms. In the opinion of the directors of the Company, the loan in substance formed part of the investment in an associate.

At 31 December 2019 and 2018, the Group has an interest in the following associate:

Name of entity	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
PCGT Limited	Hong Kong	Ordinary	25%	25%	Trading of textile products

The above associate is accounted for using the equity method in these consolidated financial statements.

Information of an associate that is not material

	2019 US$'000	2018 US$'000
The Group's share of profit for the year	**2,483**	1,623
The Group's share of other comprehensive expense for the year	**(40)**	(181)
The Group's share of total comprehensive income for the year	**2,443**	1,442
The Group's share of the net assets (liabilities) of an associate	**456**	(1,987)

18. LOAN RECEIVABLES

Except for the amounts of approximately US$1,692,000 (2018: US$740,000) which carry interest rates ranging from 2.9% to 3.8% (2018: 2.9%) per annum, the amounts are unsecured, interest-free and repayable by instalments until 2025.

19. INVENTORIES

	2019 **US$'000**	2018 US$'000
Raw materials	**81,630**	96,267
Work in progress	**173,351**	162,365
Finished goods	**20,558**	19,175
	275,539	277,807

At 31 December 2019, approximately US$5,683,000 (2018: US$5,374,000) of the Group's inventories have been pledged to banks to secure general banking facilities granted to the Group.

20. TRADE, BILLS AND OTHER RECEIVABLES

	2019 **US$'000**	2018 US$'000
Trade receivables — contracts with customers	**272,567**	272,711
Bills receivable	**388**	1,310
Temporary payments	**8,974**	11,476
Other deposits and prepayments	**45,063**	51,723
	326,992	337,220

Advance rental payments for certain leases included in other deposits and prepayments were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in note 2.1.

At 1 January 2018, trade receivables from contracts with customers amounted to US$285,883,000.

At 31 December 2019, approximately US$20,035,000 (2018: US$30,037,000) of the Group's trade receivables have been pledged to banks to secure general banking facilities granted to the Group.

20. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

The Group allows credit periods ranging from 14 to 120 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for credit losses, based on invoice dates.

	2019 **US$'000**	2018 US$'000
Within 60 days	**262,524**	253,237
61 to 90 days	**8,626**	18,336
91 to 120 days	**853**	987
Over 120 days	**564**	151
	272,567	272,711

Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

At 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amounts of approximately US$26,884,000 (2018: US$36,687,000) which are past due at the end of the reporting period. Out of the past due balances, US$223,000 (2018: US$62,000) has been past due over 90 days and is not considered as in default because the trade receivables are of good credit quality and those debtors do not have any default payment history. The Group does not hold any collateral over these balances.

Movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach is as follows:

	US$'000
At 1 January 2018	38
Write off	(38)
At 31 December 2018 and 2019	–

Details of the impairment assessment of trade, bills and other receivables are set out in note 34.

21. TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As part of the Group's cash flow management, the Group factors certain trade receivables to financial institutions before the receivables are due for repayment. The factored trade receivables are derecognised on the basis that the Group has transferred substantially all the risks and rewards to the relevant counterparties. Such trade receivables, that are held for the collection of contractual cash flows and sale of financial assets, have been classified as trade receivables at FVTOCI.

At 31 December 2019, the effective interest rates of the factoring trade receivables at FVTOCI ranged from 3.28% to 3.41% (2018: 2.77% to 2.90%) per annum. Details of the valuation techniques and key inputs adopted for their fair value measurements are disclosed in note 34c.

Details of the impairment assessment of trade receivables at FVTOCI are set out in note 34.

22. BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0% to 3.50% (2018: 0% to 3.50%) per annum.

For the year ended 31 December 2019, the Group has assessed the impairment of bank balances and has concluded that the probability of defaults of the counterparty banks is insignificant and accordingly, no allowance for credit losses is provided.

23. SHARE CAPITAL

	Number of shares '000	Share capital US$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	3,500,000	4,482
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	2,852,822	3,654

24. TRADE, BILLS AND OTHER PAYABLES

	2019 US$'000	2018 US$'000
Trade payables	**170,974**	178,978
Bills payable	**4,710**	3,455
Accrued staff cost	**90,546**	81,368
Other payables	**53,647**	49,797
Other accruals	**37,824**	50,838
Total trade, bills and other payables	**357,701**	364,436

The total is analysed for reporting purposes as:

	2019 US$'000	2018 US$'000
Current	**356,401**	360,246
Non-current	**1,300**	4,190
	357,701	364,436

At 31 December 2019, the non-current amounts are related to the purchase of property, plant and equipment and are unsecured, interest-free and repayable in 2021 (2018: repayable from 2020 to 2021).

The credit period of trade payables is from 14 to 60 days.

The following is an aged analysis of trade payables based on invoice dates.

	2019 US$'000	2018 US$'000
Within 60 days	**149,308**	155,019
61 to 90 days	**19,542**	22,510
91 to 120 days	**705**	666
Over 120 days	**1,419**	783
	170,974	178,978

25. LEASE LIABILITIES

	31.12.2019 US$'000
Lease liabilities payable:	
Within one year	**13,073**
Within a period of more than one year but not more than two years	**6,478**
Within a period of more than two years but not more than five years	**5,730**
Within a period of more than five years	**4,250**
	29,531
Less: Amounts due for settlement within 12 months shown under current liabilities	**(13,073)**
Amounts due for settlement after 12 months shown under non-current liabilities	**16,458**

At 31 December 2019, lease liabilities of approximately US$3,580,000 was due to companies controlled by certain directors of the Company.

26. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and their movements during the current and prior years:

	Fair value adjustment on business combination US$'000	Accelerated tax depreciation US$'000	Revaluation of properties US$'000	Defined benefit assets/ liabilities US$'000	Tax losses US$'000	Total US$'000
At 1 January 2018	11,701	1,050	19,593	(44)	(1,046)	31,254
Exchange realignment	–	(26)	(683)	–	36	(673)
Charge to other comprehensive income	–	–	1,416	105	–	1,521
(Credit) charge to profit or loss	(836)	(78)	812	(61)	746	583
At 31 December 2018	10,865	946	21,138	–	(264)	32,685
Exchange realignment	–	19	(209)	17	(1)	(174)
Charge to other comprehensive income	–	–	160	532	–	692
(Credit) charge to profit or loss	(836)	(88)	276	2	88	(558)
At 31 December 2019	10,029	877	21,365	551	(177)	32,645

At 31 December 2019, the Group had unused tax losses of approximately US$17,016,000 (2018: US$26,866,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$1,079,000 (2018: US$1,608,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$15,937,000 (2018: US$25,258,000) due to the unpredictability of future profit streams. Except for unrecognised tax losses of approximately US$715,000 (2018: US$715,000) that can be used to continuously offset against taxable profits up to 5 years from the year in which the loss is incurred, other losses may be carried forward indefinitely.

27. RETIREMENT BENEFIT PLANS

Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes. The Group is required to make contributions to the retirement schemes up to the time of retirement of the eligible employees, excluding those employees who resign before their retirement, at a percentage that is specified by the local government authorities.

The total expense recognised in profit or loss of approximately US$50,364,000 (2018: US$49,812,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. All contributions due in respect of the years ended 31 December 2019 and 2018 have been paid to the plans.

Defined benefit plan

The Group operates a funded defined benefit scheme for qualifying employees of its subsidiaries in the U.K. that has been closed to new members since 1999. Under the scheme, the employees are entitled to retirement benefits as a percentage of final salary on attainment of the retirement age. No other post-retirement benefits are provided.

The plan in the U.K. exposes the Group to actuarially calculated risks, such as investment risk, interest rate risk, inflation risk and longevity risk.

Investment risk

The present value of the defined benefit plan liability is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced portfolio in equity investments, diversified growth funds, debt investments, liability driven investment funds and, until close to the end of the year, a property fund. Due to the long-term nature of the plan liabilities, the trustees of the pension fund consider it appropriate that the plan assets should be invested in the portfolio to leverage the return generated by the funds.

Interest rate risk

A decrease in the interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's corporate bonds and liability driven investment funds.

Inflation risk

The plan allows for rates of inflation experienced in the U.K. to apply to prospective benefits. The amounts of inflation adjustments are calculated in accordance with indices set out in the plan deed.

27. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plan (Continued)

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability.

The most recent actuarial valuation of plan assets and the assessment of the present value of the defined benefit obligations were carried out on 31 December 2019 by Mercer Limited, fellow of the Institute and Faculty of Actuaries, located at The St Botolph Building, 138 Houndsditch, London EC3A 7AW. The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations are as follows:

	2019	2018
Discount rate	**2.0%**	2.8%
Expected return on plan assets:		
— equities and property fund	**6.3%**	6.6%
— bonds and cash	**2.8%**	3.3%
Future pension increases	**2.9%**	3.2%
Inflation rate	**3.0%**	3.3%
Revaluation rate for deferred pensioners	**2.0%**	2.3%

Amounts recognised in profit or loss and other comprehensive income in respect of this defined benefit plan are as follows:

	2019 **US$'000**	2018 US$'000
Service cost		
Past service cost	**–**	(363)
Net interest income recognised in profit or loss	**13**	3
	13	(360)
Remeasurement of the net defined benefit assets (liabilities):		
Return on plan assets (excluding amounts included in net interest expense/income)	**6,418**	(2,965)
Actuarial (losses) gains arising from changes in financial assumptions	**(4,488)**	2,633
Actuarial losses arising from experience adjustments	**(11)**	(909)
Actuarial gains arising from changes in demographic assumptions	**445**	1,063
Components of defined benefit income (costs) recognised in other comprehensive income	**2,364**	(178)
Total	**2,377**	(538)

27. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plan (Continued)

The adjustment arising from the remeasurement of the net defined benefit assets is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plan is as follows:

	2019 **US$'000**	2018 US$'000
Present value of funded defined benefit obligations	**45,227**	40,566
Fair value of plan assets	**(48,465)**	(40,566)
Net asset arising from defined benefit obligations	**(3,238)**	–

Note: Accounting standards require that this asset be recognised in the consolidated statement of financial position although it is the current intention of the Company that, at some point, a buyout of the scheme should be sought in which case, were that to occur, the asset would not be recoverable in such circumstances.

Movements in the present value of the defined benefit obligations in both years were as follows:

	2019 **US$'000**	2018 US$'000
At beginning of the year	**40,566**	46,493
Exchange realignment	**1,507**	(2,481)
Interest cost	**1,111**	1,083
Benefits paid	**(2,011)**	(2,105)
Past service cost	**–**	363
Actuarial losses (gains)	**4,054**	(2,787)
At end of the year	**45,227**	40,566

Movements in the fair value of the plan assets in both years were as follows:

	2019 **US$'000**	2018 US$'000
At beginning of the year	**40,566**	46,228
Exchange realignment	**1,604**	(2,479)
Interest income	**1,124**	1,086
Return on plan assets	**6,418**	(2,965)
Benefits paid	**(2,011)**	(2,105)
Contributions from employer	**764**	801
At end of the year	**48,465**	40,566

27. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plan (Continued)

The fair values of the plan assets at the end of the reporting period for each category are as follows:

	2019 **US$'000**	2018 US$'000
Cash and cash equivalents	**20**	20
Equity investments	**5,040**	7,817
Diversified growth funds	**18,359**	14,495
Liability driven investment funds	**12,076**	11,963
Debt investments	**12,970**	4,774
Property fund	**–**	1,497
Total	**48,465**	40,566

The fair values of the above equity and debt investments and property fund are determined based on quoted market prices in active markets.

The actual return on plan assets was an approximate gain of US$7,542,000 (2018: loss of US$1,879,000).

Significant actuarial assumptions for the determination of the defined obligation are discount rate, inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate decreases by 0.25%, the defined benefit obligation would increase by 4.4% (2018: 4.4%).
- If the discount rate increases by 0.25%, the defined benefit obligation would decrease by 5.0% (2018: 4.1%).
- If the inflation rate increases by 0.25%, the defined benefit obligation would increase by 2.6% (2018: 2.5%).
- If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by 3.7% (2018: 3.7%).

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation from one another as some of the assumptions may be correlated.

In presenting the above sensitivity analyses, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is also applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

27. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plan (Continued)

The average duration of the defined benefit obligation at 31 December 2019 is 17 years (2018: 18 years).

The contributions expected to be made by the Group to the defined benefit plan during the following 12 months at 31 December 2019 will be US$787,000 (2018: US$761,000).

28. BANK BORROWINGS

	2019 **US$'000**	2018 US$'000
Bank borrowings comprise:		
Bank loans	**169,777**	261,026
Bank import loans	**101,035**	170,951
Bank overdrafts	**6,629**	2,435
	277,441	434,412
Analysed as:		
Secured	**3,062**	2,210
Unsecured	**274,379**	432,202
	277,441	434,412
The carrying amounts of loans that contain a repayment on demand clause are repayable:		
Within one year	**155,174**	352,807
More than one year but not more than two years	**111,751**	52,752
More than two years but not more than five years	**10,516**	28,853
	277,441	434,412
Less: Amounts due within one year shown under current liabilities	**(277,441)**	(434,412)
Amounts shown under non-current liabilities	**–**	–

The effective interest rates (which are also equal to contracted interest rates) of the Group's variable-rate borrowings range from 2.30% to 5.20% (2018: 2.03% to 5.13%) per annum.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 US$'000	2018 US$'000
Derivative financial liabilities		
Foreign currency exchange contracts	–	7,462

All foreign currency exchange contracts matured during the year ended 31 December 2019.

The major components of the foreign currency exchange contracts at 31 December 2018 were as follows:

Notional amount	Currency conversion
17 contracts to sell US$170,000,000 in total (note)	US$1:RMB6.4213–RMB6.8990

Note: The contracts existing at the end of the reporting period had a maturity of less than 12 months.

During the year ended 31 December 2019, net fair value losses of foreign currency exchange contracts of approximately US$1,438,000 (2018: US$7,340,000) were recognised directly in profit or loss.

30. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate is trade in nature, unsecured, interest-free and repayable on demand.

31. AMOUNTS DUE FROM RELATED COMPANIES

At 31 December 2019 and 2018, the Group had balances with the following related companies:

	2019 US$'000	2018 US$'000
Amounts due from related companies (note i)		
Fellow subsidiaries	–	518
Companies controlled by certain directors of the Company (note ii)	1,506	215
	1,506	733

Notes:

(i) Included in the amounts due from related companies, US$982,000 (2018: US$212,000) are trade in nature, unsecured, interest-free and repayable on demand. The maximum balances during the current year were US$1,060,000 (2018: US$1,667,000). The remaining balances of US$524,000 (2018: US$521,000) are non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) Certain directors of the Company, namely Mr. LO Lok Fung Kenneth, Mrs. LO CHOY Yuk Ching Yvonne and Mr. LO Ching Leung Andrew, have significant influence in these companies.

32. SHARE-BASED PAYMENT TRANSACTIONS

Share Award Scheme B

The Company adopted the share award scheme ("**Share Award Scheme B**") pursuant to a written resolution passed in April 2017, which approved the Company appointing an independent professional trustee (the "**Trustee**") to assist with the administration and vesting of the share awards. The purpose of Share Award Scheme B was to incentivise the Group's executives, consultants or officers to contribute to the Group, to retain and motivate skilled and experienced personnel and to incentivise them to strive for the future development of the Group by providing them with the opportunity to own equity in the Company.

Share Award Scheme B is valid and effective for a period of ten years, commencing from the date of the first grant of shares under the scheme. During the year ended 31 December 2017, 13,062,000 shares were granted to 93 persons eligible under Share Award Scheme B. No consideration was paid by the grantees for the grant of the incentive shares. When the selected person had fulfilled the condition of service period specified in Share Award Scheme B, the Trustee transferred the relevant incentive shares to that eligible person.

Details of specific categories of share awards are as follows:

	Number of shares	Date of grant	Vesting date
First tranche	4,754,000	11 October 2017	3 November 2017
Second tranche	4,154,000	11 October 2017	3 November 2018
Third tranche	4,154,000	11 October 2017	3 November 2019

The estimated fair values of the share awards granted on 11 October 2017 amounted to approximately US$9,864,000.

The following table discloses movements of share awards held by employees under Share Award Scheme B:

	Outstanding at 1.1.2018	Lapsed during the year (Note)	Vested during the year	Outstanding at 31.12.2018	Lapsed during the year (Note)	Vested during the year	Outstanding at 31.12.2019
Second tranche	4,154,000	(107,500)	(4,046,500)	–	–	–	–
Third tranche	4,154,000	(189,000)	–	3,965,000	(469,500)	(3,495,500)	–
	8,308,000	(296,500)	(4,046,500)	3,965,000	(469,500)	(3,495,500)	–

Note: 6 eligible participants (2018: 10), who were granted share awards ceased to become eligible participants upon termination of employment and their share awards automatically lapsed.

32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share Award Scheme B (Continued)

The fair value of the awarded shares was measured at the estimated market price of the Company's shares, adjusted for the restriction on transfer, disposal and sale for a certain period of time. The inputs used in the fair value measurement were as follows:

	First tranche	Second tranche	Third tranche
Estimated market price	HK$7.89	HK$7.89	HK$7.89
Number of shares	4,754,000	4,154,000	4,154,000
Vesting date	3 November 2017	3 November 2018	3 November 2019
Total restrictive period	3 years	4 years	5 years
Expected volatility	33.8%	33.9%	34.4%
Risk-free rate	1.3%	1.4%	1.5%
Expected dividend yield	1.7%	1.7%	1.7%

The risk-free rate is based on the yield of Hong Kong Government Bonds.

Expected volatility was determined by using average daily volatilities of comparable companies with a tenure commensurate with the restrictive period.

The Group has recognised the total expense of US$858,000 (2018: US$3,940,000) for the year ended 31 December 2019 relating to the share awards under Share Award Scheme B granted by the Company.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to the shareholders through the careful management of the debt to equity ratio. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 28, less bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis.

34. FINANCIAL INSTRUMENTS

34a. Categories of financial instruments

	2019 **US$'000**	2018 US$'000
Financial assets		
Financial assets at amortised cost	**593,126**	636,277
Trade receivables at FVTOCI	**6,515**	10,697
Financial liabilities		
Derivative financial liabilities	**–**	7,462
Financial liabilities at amortised cost	**647,004**	802,455

34b. Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, trade receivables at FVTOCI, amounts due from related companies, loan receivables, bank balances and cash, trade, bills and other payables, amount due to an associate, derivative financial instruments and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

Several entities in the Group have foreign currency sales and purchases, which expose the Group to significant foreign currency risk.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2019 **US$'000**	2018 US$'000	**2019** **US$'000**	2018 US$'000
HK$	**635**	267	**2,679**	16,048
Renminbi ("**RMB**")	**116**	3	**1,830**	21,132

The management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the fluctuations in the HK$ and the RMB. The foreign currency risk of the HK$ is not significant as the HK$ is pegged to the US$.

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against the US$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances, trade, bills and other receivables and trade, bills and other payables in the RMB which is not the functional currency of the relevant group entities. A positive number below indicates an increase in profit where the US$ weakens 5% against the RMB. For a 5% strengthening of the US$ against the RMB, there would be a comparable impact on the Group's post-tax profit and the balances below would be negative.

	2019 **US$'000**	2018 US$'000
Post-tax profit	**72**	882

For the foreign currency exchange contracts (see note 29), all contracts matured during the year ended 31 December 2019 and no new contract was entered into by the Group. The sensitivity analysis was estimated based on the contracts outstanding at 31 December 2018. If the forward exchange rate of the US$ against the RMB changed by 5%, the potential effect on the Group's post-tax profit for the year ended 31 December 2018 would have been:

	2018 US$'000
US$ strengthens against RMB by 5%	
Decrease in the post-tax profit for the year	(6,463)
US$ weakens against RMB by 5%	
Increase in the post-tax profit for the year	7,143

34. FINANCIAL INSTRUMENTS (Continued)

34b. *Financial risk management objectives and policies* (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to lease liabilities (see note 25 for details). The Group's cash flow interest rate risks relate primarily to variable-rate bank balances and bank borrowings (see notes 22 and 28 for details of these balances and borrowings). It is the Group's policy to keep its bank balances and borrowings at floating rates of interest to minimise the interest rate risk.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate, London Interbank Offered Rate and Singapore Interbank Offered Rate arising from the Group's bank borrowings.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2019 **US$'000**	2018 US$'000
Other income		
Financial assets at amortised cost	**1,961**	4,162

Interest expense on financial liabilities not measured at FVTPL:

	2019 **US$'000**	2018 US$'000
Financial liabilities at amortised cost	**17,271**	17,859

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming these financial instruments outstanding at the end of the respective reporting period were outstanding for the whole year. A 0.5% (2018: 0.5%) increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The exposure to the interest rate risk for variable-rate bank balances is insignificant and therefore the sensitivity analysis is not presented.

If interest rates had been 0.5% (2018: 0.5%) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by approximately US$1,010,000 (2018: US$1,499,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

34. FINANCIAL INSTRUMENTS (Continued)

34b. *Financial risk management objectives and policies* (Continued)

Credit risk and impairment assessment

At 31 December 2019, the Group's maximum exposure to credit risk, which could cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team to be responsible for credit approvals and to ensure other monitoring procedures are in place to initiate follow-up action to recover overdue debts. In addition, the Group assesses impairment under the ECL model upon application of IFRS 9 on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risks on bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The management of the Group considers that the credit risk on amounts due from related companies is limited because they can closely monitor repayments by the associate and the related companies.

At 31 December 2019, trade receivables from the five largest customers represent approximately 67.8% (2018: 68.7%) of the Group's total trade receivables.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers that are spread across diverse geographical areas.

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

Category	Description	Trade receivables	Other financial assets
Performing	The counterparty has a low risk of default and has no default record	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
In default	There is evidence indicating that the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The estimated loss rates are determined based on historically observed default rates over the expected lives of the debtors and are adjusted for forward-looking information, including but not limited to the expected growth rate of the industry, that is available without undue cost or effort.

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Trade receivables are assessed individually for impairment allowance based on the historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period, including the time value of money where appropriate.

In determining the ECL for trade receivables at FVTOCI, other receivables and loan receivables, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding trade receivables at FVTOCI, other receivables and loan receivables is insignificant.

		Internal credit rating	12-month or Lifetime ECL	Gross carrying amount	
	Notes			**2019 US$'000**	2018 US$'000
Trade receivables	20	Performing	Lifetime ECL — not credit-impaired	**272,567**	272,711
Trade receivables at FVTOCI	21	Performing	12m ECL	**6,515**	10,697
Bills and other receivables	20	Performing	12m ECL	**49,127**	57,972
Loan receivables	18	Performing	12m ECL	**3,086**	2,535
Amounts due from related companies	31	Performing	12m ECL	**1,506**	733
Bank balances	22	Performing	12m ECL	**266,511**	302,073

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Liquidity risk

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

The Group relies on bank borrowings as significant sources of liquidity, details of which are set out in note 28.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks not choosing to exercise their rights within one year after the end of the reporting period. The maturity analysis for other non-derivative financial liabilities is based on the scheduled repayment dates.

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

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash (inflows) and outflows of derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

2019

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	2–3 months US$'000	4 months to 1 year US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2019 US$'000
Non-derivative financial liabilities							
Trade, bills and other payables	–	229,629	86,995	39,777	1,300	357,701	357,701
Lease liabilities	6.7	1,392	2,405	9,642	27,881	41,320	29,531
Amount due to an associate	–	11,862	–	–	–	11,862	11,862
Bank borrowings							
— variable rate	3.5	277,441	–	–	–	277,441	277,441
		520,324	89,400	49,419	29,181	688,324	676,535

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

2018

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	2–3 months US$'000	4 months to 1 year US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2018 US$'000
Non-derivative financial liabilities							
Trade, bills and other payables	–	269,546	63,880	26,820	4,190	364,436	364,436
Amount due to an associate	–	3,607	–	–	–	3,607	3,607
Bank borrowings							
— variable rate	3.6	434,412	–	–	–	434,412	434,412
		707,565	63,880	26,820	4,190	802,455	802,455
Derivatives-net settlement							
Foreign currency exchange contracts	–	661	1,312	5,489	–	7,462	7,462

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. The aggregate undiscounted principal amounts of these bank loans amounted to approximately US$277,441,000 at 31 December 2019 (2018: US$434,412,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below.

	Maturity Analysis-Bank borrowings with a repayment on demand clause based on scheduled repayments						
	On demand or less than 1 month US$'000	**1–3 months** US$'000	**3 months to 1 year** US$'000	**1–2 years** US$'000	**2–5 years** US$'000	**Total undiscounted cash outflow** US$'000	**Carrying amount** US$'000
2019	**9,460**	**44,077**	**104,516**	**115,776**	**11,653**	**285,482**	**277,441**
2018	63,171	73,630	151,460	106,579	53,016	447,856	434,412

The amounts included above for variable interest rate instruments within the non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

34. FINANCIAL INSTRUMENTS (Continued)

34c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of financial assets and financial liabilities.

(i) Fair values of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and key inputs used).

	Fair value hierarchy at				
	31 December 2019		31 December 2018		Valuation
	Level 2	**Total**	Level 2	Total	techniques
	US$'000	**US$'000**	US$'000	US$'000	and key inputs
Financial assets					
Trade receivables at FVTOCI	**6,515**	**6,515**	10,697	10,697	note (a)
Financial liabilities					
Foreign currency exchange contracts classified as derivative financial liabilities	**–**	**–**	7,462	7,462	note (b)

Notes:

(a) Discounted cash flow. Future cash flows are estimated using a rate from the factoring arrangements.

(b) Discounted cash flow. Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers into or out of Level 2 during both years.

(ii) For the fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

35. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had capital commitments as follows:

	2019 **US$'000**	2018 US$'000
Contracted for but not provided for in the consolidated financial statements in relation to the acquisition of property, plant and equipment	**42,175**	61,525

36. OPERATING LEASE COMMITMENTS

	2018 US$'000
The Group as lessee	
Lease payments paid under operating leases during the year in respect of:	
Land and buildings	13,998
Plant and machinery	1,030
	15,028

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which would fall due as follows:

	2018 US$'000
Land and buildings	
— Within one year	10,238
— In the second to fifth year inclusive	18,828
— Over five years	148
	29,214
Plant and machinery	
— Within one year	648
— In the second to fifth year inclusive	53
	701
	29,915

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, office properties and machinery. Leases are negotiated for terms of 1 to 30 years and rentals are fixed for terms of 1 to 30 years.

37. PLEDGE OF ASSETS

At the end of the reporting period, the Group had the following assets pledged to banks as security for general banking facilities granted to the Group:

	2019 US$'000	2018 US$'000
Property, plant and equipment (note 11)	**10,540**	10,303
Inventories (note 19)	**5,683**	5,374
Trade receivables (note 20)	**20,035**	30,037
	36,258	45,714

38. RELATED PARTY TRANSACTIONS

(a) Related party transactions

During the year, the Group entered into transactions with the following related parties:

Relationship	**Nature of transaction**	**2019 US$'000**	2018 US$'000
Fellow subsidiaries	Rentals paid	**–**	(1,830)
	Management service income	**–**	264
	Subcontracting income	**–**	2,402
	Equipment leasing expenses	**–**	(500)
An associate	Purchase of materials	**(31,700)**	(15,366)
	Claims received	**22**	94
Companies controlled by certain directors of the Company (note i)	Rentals paid	**–**	(1,294)
	Management service income	**435**	–
	Subcontracting income	**3,137**	–
	Interest expense on lease liabilities	**(72)**	–
	Handling fee received	**31**	32
	Lease liabilities (note ii)	**(3,228)**	–

At 31 December 2019 and 2018, the Group has provided a corporate guarantee to an associate of the Group to secure the bank facilities granted to an associate to the extent of US$6,500,000. The Group is required to pay immediately if the associate is unable to meet its obligation. Such corporate guarantee falls within the definition of a financial guarantee contract under IFRS 9. The Group determines the ECL as 'performing' and no loss allowance was recognised in either year.

Notes:

(i) Certain directors of the Company, namely Mr. LO Lok Fung Kenneth, Mrs. LO CHOY Yuk Ching Yvonne and Mr. LO Ching Leung Andrew, have significant influence in these companies.

(ii) During the year ended 31 December 2019, the Group renewed several lease agreements for the use of office, warehouse, living quarters and production equipment with companies controlled by certain directors of the Company. The lease terms ranged from 9 months to 1 year. The Group accounted for these agreements as lease modification under IFRS 16 and remeasured the right-of-use assets and the corresponding lease liabilities. As a result, US$3,228,000 of right-of-use assets and lease liabilities were recognised.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) *Emoluments of key management personnel*

Emoluments of directors, who are also the key management personnel, during the year were as follows:

	2019	2018
	US$'000	US$'000
Short-term benefits	**6,564**	5,079
Post-employment benefits	**74**	97
	6,638	5,176

The emoluments of directors are recommended to the Board by the Remuneration Committee of the Company having regard to the performance of each individual and comparable market statistics.

(c) *Balances with related companies*

The Group's outstanding balances with related companies at 31 December 2019 and 2018 are set out in aggregate in these consolidated statements of financial position and the corresponding notes thereto.

(d) *Commitments with a former fellow subsidiary and related parties*

During the year ended 31 December 2017, certain subsidiaries of the Company entered into several non-cancellable operating lease arrangements as lessees with a former fellow subsidiary and companies controlled by certain directors of the Company with lease term ranging from two to three years. The total amount of rental expense for the year ended 31 December 2018 was included in note 38(a).

Upon adoption of IFRS 16, lease contracts entered into by the Group are accounted for as addition of right-of-use assets and the interest expenses on lease liabilities are amortised over the lease terms.

The interest expenses on lease liabilities related to the balance with related parties are related party transactions and included in note 38(a).

(e) *Licence agreement entered into with the former ultimate holding company*

The Group has entered into a licence agreement on 20 March 2017 with the former ultimate holding company, pursuant to which the former ultimate holding company has agreed to grant to the Group a licence to use certain trademarks and domain names in connection with its business and operations in various territories for three years commencing 1 January 2017 ("**Initial Term**") and automatically renewed for successive three years upon expiration of the Initial Term ("**Renewed Term**"). The consideration is HK$1.00 for the Renewed Term.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	At 1 January 2019 US$'000	**Financing cash flows US$'000**	**Other changes US$'000**	**At 31 December 2019 US$'000**
Bank borrowings (notes i and ii)	**431,977**	**(177,760)**	**16,595**	**270,812**
Lease liabilities (notes iii and iv)	**29,440**	**(16,969)**	**17,060**	**29,531**
	461,417	**(194,729)**	**33,655**	**300,343**

	At 1 January 2018 US$'000	Financing cash flows US$'000	Other changes US$'000	At 31 December 2018 US$'000
Bank borrowings (notes i and ii)	526,299	(112,361)	18,039	431,977

Notes:

(i) Other changes of bank borrowings include the effect of foreign exchange rate changes and interest on bank borrowings.

(ii) Bank borrowings include bank loans, bank import and export loans. The cash flows from bank borrowings comprise the net amount of new bank borrowings raised and repayment of bank borrowings and interest paid.

(iii) Other changes of lease liabilities include the effect of foreign exchange rate changes, interest expense on lease liabilities and the addition/derecognition of lease liabilities.

(iv) The cash flows from lease liabilities comprise the amount of repayment of lease liabilities and interest paid.

40. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the principal subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ operation	Issued and paid capital	Proportion of nominal value of issued share/ registered capital held by the Company				Principal activities
			2019		2018		
			Directly %	Indirectly %	Directly %	Indirectly %	
Amigo Bangladesh Limited	Bangladesh	Bangladesh Taka 4,196,561,000	–	100	–	100	Manufacture of garments
Crystal Apparel Limited	Hong Kong	HK$2,000,000	–	100	–	100	Trading of garments
Crystal Martin Apparel Bangladesh Limited	Bangladesh	Bangladesh Taka 87,503,800	–	100	–	100	Manufacture of garments
Crystal Knitters Limited	Hong Kong	HK$7,502,000	100	–	100	–	Provision of corporate services
Crystal Martin Central (Private) Limited	Sri Lanka	Sri Lanka Rupee 11,375,000	–	100	–	100	Manufacture of garments
Crystal Martin (Cambodia) Limited	Cambodia	US$8,226,000	–	100	–	100	Manufacture of garments
Crystal Martin (Hong Kong) Limited	Hong Kong	HK$1,970,497	–	100	–	100	Trading of garments
Crystal Martin International Limited	The U.K.	Great British Pound 100	–	100	–	100	Trading of garments
Crystal Martin Intimate (Macao Commercial Offshore) Limited	Macau	Macau Pataca ("**MOP**") 100,000	–	100	–	100	Trading of garments

40. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and paid capital	Proportion of nominal value of issued share/ registered capital held by the Company				Principal activities
			2019		2018		
			Directly %	Indirectly %	Directly %	Indirectly %	
Crystal Martin (Vietnam) Company Limited	Vietnam	US$2,000,000	–	100	–	100	Manufacture of garments
Crystal Sweater Limited	Hong Kong	HK$5,000,000	–	100	–	100	Trading of garments
Crystal Elegance Industrial Limited	Hong Kong	HK$1,500,020	–	100	–	100	Trading of garments
Elegance (Macao Commercial Offshore) Limited	Macau	MOP100,000	–	100	–	100	Trading of garments
Regent Garment Factory Limited	Vietnam	US$26,000,000	–	100	–	100	Manufacture of garments
Seiko Sweater (Macao Commercial Offshore) Limited	Macau	MOP100,000	–	100	–	100	Trading of garments
Crystal SL Global Pte. Ltd.	Singapore	Singapore dollars 6,052,605	–	100	–	100	Trading of garments
中山益達服裝有限公司*	The PRC	HK$247,400,000	–	100	–	100	Manufacture of garments
東莞晶苑毛織製衣有限公司*	The PRC	HK$436,320,000	–	100	–	100	Manufacture of garments
英商馬田紡織品（中國-中山）有限公司*	The PRC	US$22,960,000	–	100	–	100	Manufacture of garments

* The company is registered in the form of wholly foreign owned enterprise.

None of the subsidiaries has issued any debt security at the end of the year or at any time during the year.

For the year ended 31 December 2019

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 US$'000	2018 US$'000
ASSETS		
Non-current asset		
Investments in subsidiaries	**58,242**	58,242
Current assets		
Other receivables	**59**	45
Amounts due from subsidiaries	**523,892**	498,249
Bank balances and cash	**1,753**	15,789
	525,704	514,083
Total assets	**583,946**	572,325
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**3,654**	3,654
Reserves (note 42)	**579,728**	568,457
Total equity	**583,382**	572,111
Current liabilities		
Other payables	**375**	214
Amount due to subsidiaries	**189**	–
	564	214
Total equity and liabilities	**583,946**	572,325

42. RESERVES OF THE COMPANY

	Share premium US$'000	Capital reserve US$'000	Share award reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2018	499,808	9,903	773	127,114	637,598
Loss and total comprehensive expense for the year	–	–	–	(14,003)	(14,003)
Recognition of equity-settled share-based payment expense	–	–	3,940	–	3,940
Vesting of shares in connection with Share Award Scheme B	3,042	–	(3,042)	–	–
Dividend paid	–	–	–	(59,078)	(59,078)
At 31 December 2018	502,850	9,903	1,671	54,033	568,457
Profit and total comprehensive income for the year	–	–	–	55,255	55,255
Recognition of equity-settled share-based payment expense	–	–	858	–	858
Vesting of shares in connection with Share Award Scheme B	2,529	–	(2,529)	–	–
Sale of Lapsed Shares	298	–	–	–	298
Dividend paid	–	–	–	(45,140)	(45,140)
At 31 December 2019	505,677	9,903	–	64,148	579,728

43. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of office, factories, warehouses, equipment and vehicles ranging from 2 months to 60 years. During the year ended 31 December 2019, the Group recognised US$15,315,000 of right-of-use assets and US$15,315,000 of lease liabilities.

44. EVENTS AFTER REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("**COVID-19**") has grown into a large-scale, multi-country epidemic during the first quarter of 2020 producing a challenging situation for all industries and society generally. The Group has assessed the overall impact of the situation on the entirety of its operations and taken all possible effective measures to limit the adverse effects of the rapidly spreading virus on people and activities. The Group is paying continuous attention to the ever-changing situation in order to respond appropriately with speed in a proactive manner. The outbreak of COVID-19 is expected to have negative impact on the global economic environments as well as the Group's revenue and profit in 2020; however, the Group is not able to estimate the financial effect at the date of this report.

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Company's prospectus dated 23 October 2017 is set out below:

RESULTS

	Year ended 31 December				
	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000	**2019** **US$'000**
Revenue	1,688,458	1,763,392	2,177,994	2,495,966	**2,427,723**
Profit before tax	79,859	144,780	174,371	170,000	**174,322**
Income tax expense	(11,574)	(21,128)	(25,854)	(20,808)	**(22,418)**
Profit for the year	68,285	123,652	148,517	149,192	**151,904**
Attributable to:					
Owners of the Company	68,285	123,652	148,429	149,192	**151,904**
Non-controlling interests	–	–	88	–	**–**
	68,285	123,652	148,517	149,192	**151,904**

ASSETS AND LIABILITIES

	At 31 December				
	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000	**2019** **US$'000**
Total assets	1,073,864	1,360,823	1,821,725	1,839,952	**1,816,168**
Total liabilities	(541,904)	(1,052,594)	(910,957)	(853,513)	**(728,150)**
Total equity	531,960	308,229	910,768	986,439	**1,088,018**
Attributable to:					
Owners of the Company	531,960	305,558	910,768	986,439	**1,088,018**
Non-controlling interests	–	2,671	–	–	**–**
	531,960	308,229	910,768	986,439	**1,088,018**

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