

TRISTATE

Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report  
2019

Stock code: 458



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## Corporate Information



WANG KOO Yik Chun  
*Honorary Chairlady*

### Board of Directors

#### Executive Director:

WANG Kin Chung, Peter,  
*Chairman and Chief Executive Officer*

#### Non-Executive Directors:

WANG KOO Yik Chun, *Honorary Chairlady*  
MAK WANG Wing Yee, Winnie  
WANG Shui Chung, Patrick

#### Independent Non-Executive Directors:

LO Kai Yiu, Anthony  
James Christopher KRALIK  
Peter TAN

### Audit Committee

LO Kai Yiu, Anthony,  
*Chairman of the Audit Committee*  
MAK WANG Wing Yee, Winnie  
James Christopher KRALIK

### Remuneration Committee

James Christopher KRALIK,  
*Chairman of the Remuneration Committee*  
MAK WANG Wing Yee, Winnie  
LO Kai Yiu, Anthony  
Peter TAN

### Share Option Committee

WANG Kin Chung, Peter,  
*Chairman of the Share Option Committee*  
MAK WANG Wing Yee, Winnie

### Chief Financial Officer

CHAN Man Ying, Vivian

### Company Secretary

TO Hon Fai

### Auditor

KPMG  
*Public Interest Entity Auditor registered in  
accordance with the Financial Reporting Council Ordinance*

### Legal Advisors

On Hong Kong Law : Reed Smith Richards Butler  
On Bermuda Law : Appleby

### Principal Bankers

Standard Chartered Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Citibank, N.A.  
The Bank of East Asia, Limited

### Registered Office

Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10  
Bermuda

### Head Office and Principal Place of Business in Hong Kong

5th Floor, 66–72 Lei Muk Road  
Kwai Chung, New Territories  
Hong Kong  
Tel : (852) 2279-3888  
Fax : (852) 2480-4676  
Website : <http://www.tristateww.com>

### Corporate Communications

The Company Secretary  
Tristate Holdings Limited  
5th Floor, 66–72 Lei Muk Road  
Kwai Chung, New Territories  
Hong Kong  
Tel : (852) 2279-3888  
Fax : (852) 2423-5576  
Email : [cosec@tristateww.com](mailto:cosec@tristateww.com)

### Listing Information

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 1988.

Stock short name : Tristate Hold  
Stock code : 458  
Board lot : 1,000 shares

### Principal Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited  
4th Floor North  
Cedar House  
41 Cedar Avenue  
Hamilton HM 12  
Bermuda

### Branch Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

## Five-Year Financial Summary

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
<b>Consolidated Statement of Profit or Loss</b>					
Revenue	3,001,253	2,578,322	1,922,706	2,253,655	2,515,738
Loss for the year attributable to:					
Equity shareholders of the Company	(38,829)	(80,455)	(64,180)	(84,091)	(45,669)
Non-controlling interests	1,892	622	(800)	(2,520)	(22)
Loss for the year	(36,937)	(79,833)	(64,980)	(86,611)	(45,691)
Basic loss per share attributable to equity shareholders of the Company	HK\$(0.14)	HK\$(0.30)	HK\$(0.24)	HK\$(0.31)	HK\$(0.17)

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
<b>Consolidated Statement of Financial Position</b>					
Non-current assets	1,147,448	954,308	696,212	676,865	821,069
Current assets	1,129,211	1,097,484	1,086,299	1,199,914	1,401,159
Current liabilities	624,904	507,088	411,690	527,933	743,478
Net current assets	504,307	590,396	674,609	671,981	657,681
Total assets less current liabilities	1,651,755	1,544,704	1,370,821	1,348,846	1,478,750
Non-current liabilities	515,151	367,360	77,733	112,873	96,904
Net assets	1,136,604	1,177,344	1,293,088	1,235,973	1,381,846
Total equity attributable to equity shareholders of the Company	1,137,038	1,179,670	1,296,036	1,238,121	1,381,532
Non-controlling interests	(434)	(2,326)	(2,948)	(2,148)	314
Total equity	1,136,604	1,177,344	1,293,088	1,235,973	1,381,846

### Notes:

- As a result of the adoption of HKFRS 16, *Leases*, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.
- As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effect from 1 January 2018, the Group changed its accounting policies in respect of revenue recognition. The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.
- The Group adopted HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*, from 1 January 2018. As a result, the Group changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group did not restate information relating to prior years. Differences in the classification and carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised at 1 January 2018. There was no difference in the classification and carrying amounts of the financial liabilities. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

## Chairman's Statement

WANG Kin Chung, Peter  
**Chairman and Chief Executive Officer**

### Our Business

We are pleased to report that for the financial year 2019, the Group has recorded growth in revenue to HK\$3,001 million from HK\$2,578 million in 2018. EBITDA for the year is recorded at HK\$188 million (2018: HK\$26 million) with loss attributable to equity shareholders of HK\$39 million (2018: HK\$80 million). The Group changed its accounting policy on leases from 1 January 2019. If applying the previous accounting standard on leases for direct comparison purposes, the Group would have reported EBITDA in 2019 of HK\$116 million (2018: HK\$26 million) and loss attributable to equity shareholders of HK\$36 million (2018: HK\$80 million).

The improved results were contributed by the continued good performance of our garment manufacturing business and our premium Italian sportswear brand C.P. Company; and offset by the investment in developing our licensed brands, Nautica and Spyder.

Our garment manufacturing business continued the growth in revenue and profitability with increased orders from both key premium business customers and better business customers. We maintain steady and long-term relationship with our customers and continue to expand our customer base. During the year, we implemented material utilisation projects and factory costs control measures to improve our margin. We have also developed our Southeast Asian factories to manufacture outerwear products and relocated certain orders into our Vietnam factory to mitigate impact from the US & China trade conflict. We continued to apply and enhance our unique manufacturing system in our factories where we operate a multi-level automation and specialisation production system using special machines and skill modules. It allows us to meet customers' requirement for high quality standard with varying quantity and product type.

C.P. Company continued to report strong year-on-year growth in revenue and increased EBITDA. For the financial year 2019, C.P. Company revenue grew 45% over the last year. Brand awareness continued to grow fast worldwide. European wholesale continued to pose strong growth in particular for sales to UK, Italy, South Korea and France. UK and Italy continued to be the largest countries which contributed over 50% of the C.P. Company revenue. We started direct retail in 2019 with the opening of Milan flagship store, Foxtown Mendrisio outlet and Beijing flagship. During this year, C.P. Company had successful collaborations with hip hop Artist Rejjie Snow and Amsterdam based street culture retailer Patta. Our ongoing marketing campaign "#EyesOnTheCity" continued to develop lifestyle communication featuring the brand's ambassadors and their own unique vision on the city and the urban environment. We also communicate with our consumers in detail about our design stories, our products, innovation and garment know-how season by season through our "Proprietary Technologies" series.



Adding to our own brands, the Group took major steps in 2018 to enter long-term licence agreements with Authentic Brands Group for two well-known, established international brands, Nautica and Spyder, mainly for the China and Hong Kong markets. Nautica had full year operation in 2019 while Spyder was launched to the China market from mid-2019.

As soon as we took over Nautica in May 2018, we have worked closely with the brand owner and retail partners to energise the brand and drive retail sell-through. We introduced our own designed collections from Spring 2019. The highlight is the design and launch of the "Black Sail" collection which features premium, technical fabrics and innovative designs and is only offered at our top stores. Along with re-building the brand and fostering direct contact with our consumers, we have built direct retail network of stores in Tier 1 markets. As of 31 December 2019, Nautica had 64 direct retail stores run by the Group and another 61 POS operated by partners.

Spyder has been well-received since its launch to the China market. Retail sales, especially for a new brand, have been encouraging. We have contracted important retail partners in key markets across various regions of China. Our strong design and supply chain capabilities have enhanced our product offerings for the China market. Marketing campaigns have been focusing on communicating the authenticity of the brand and its long history in the technical, competitive ski industry. As of 31 December 2019, Spyder had 35 stores across 18 cities in China.

# Chairman's Statement

## Our Performance

The Group's 2019 performance reflected our plan and dedication to investment in brands business with the support from our garment manufacturing business.

### Brands business

Revenue from brands business was HK\$690 million in 2019, which was 64% higher than 2018. Strong growth of wholesale by C.P. Company in key European countries and full year revenue contribution from Nautica are key drivers for the increase.

C.P. Company reported a net profit in 2019. Segment loss of brands business increased in 2019 was mainly due to the early redevelopment and development stages for the Nautica and Spyder businesses respectively, and the increase recognition of licence right amortisation and interest on licence fees payable for the two licensed brands for the full year.

### Garment manufacturing

Revenue from garment manufacturing business was HK\$2,311 million, which was 7% increase over 2018. Revenue from premium business increased by 2% over last year due to continued growth from key customers. Revenue from better business also increased by 17% mainly from healthy growth of orders in our Southeast Asian factories.

Segment profit of garment manufacturing business recorded encouraging increase in 2019 as compared with 2018. This is mainly due to increased revenue and gross profit.

## Outlook

The Group is dedicated to growing our brands business and at the same time continuing to strengthen our garment manufacturing business. The outbreak and spreading of 2019 Novel Coronavirus ("COVID-19") since early 2020 have created unprecedented disruptions to all markets and all industries. It has been affecting the Group's business. The Group has actively put in place measures in mitigating its impact. The Group will closely monitor the development and will keep its alleviating measures under regular review.

In Europe, vast area has been put in lockdown amid the COVID-19 epidemic, and this has caused disruption to our C.P. Company business in Europe. C.P. Company has a sound business foundation with year-on-year double-digit growth in revenue. The momentum for the brand is very positive since acquisition. We are closely monitoring the development and communicate with distributors and suppliers for rearranging inventory orders and put on-hold special collaboration projects. We believe the brand will return to strong upward momentum when the COVID-19 situation normalises.

In Mainland China, stores of our licensed brands were temporarily closed all of February 2020. While stores in Mainland China are resuming operation, footfall is expected only to recover gradually. The Group has taken measures to put on hold new store openings and material investments, negotiate rental concession, rearrange

purchase orders and strengthen cost control. While the first half year will be tough, it is expected that market demand in China will gradually back to normal. For Nautica, we will expand the "Black Sail" collection including its first women's collection and drive per store revenue. The brand has set up its official website and online shop in China to expand e-commerce. Spyder has been well-received since its launch to the China market. We will resume the momentum to expand retail stores into key locations when the epidemic situation is stabilised.

Our garment manufacturing business has recorded encouraging performance in 2019. COVID-19 is spreading around the world and has created challenges and uncertainties to the global economy and trading environment. The global outbreak has caused disruptions to both our production and the business of our customers with temporary shut down of retail stores and supply chain facilities. The timing to have the economy reopen is not yet certain. The epidemic impacts market sentiment and demand. Our customers are reassessing their inventory level and discounting orders due to the weak consumer demand. We have continuing communication with our customers and suppliers to closely manage the situation, and at the same time tightening our costs in all areas of the operations. We believe that the challenges could be alleviated by our diversified production base, our effort to rationalise material usage and drive efficiency, and by applying our unique manufacturing system in our factories to enhance our competitiveness.

The duration of the epidemic and the scale of its impact remain uncertain. The Group will use our best effort to contain the impact of the epidemic. We believe our garment manufacturing business and C.P. Company brand business have sound and solid foundation to weather the crisis. We are very cautious on the outlook and will take prudent approach to invest in our licensed brands Nautica and Spyder in this year. The Group's 2020 financial performance will inevitably be affected by the COVID-19 outbreak. With the Group's solid experience together with our bank balances of over HK\$200 million and adequate bank credit facilities, we are confident to overcome this unprecedented challenge and believe the long-term growth and sustainability of the Group will be continued.

## Appreciation

I would like to take this opportunity to extend my gratitude to my fellow Directors, the management team and our staff for their continuing dedication, professionalism and enthusiasm. I would also like to thank all our customers, business partners and shareholders for their ongoing trust and support for the Group.

**Wang Kin Chung, Peter**

*Chairman and Chief Executive Officer*

Hong Kong, 31 March 2020

## Management Discussion and Analysis

In this Management Discussion and Analysis, we present the business review and a discussion on the financial performance of the Group for the year ended 31 December 2019.

### Overview

The Group's 2019 performance continues to reflect our dedication to investment in brands business with the support from our garment manufacturing business.

For the financial year 2019, the Group recorded growth in revenue to HK\$3,001 million from HK\$2,578 million in 2018, and EBITDA of HK\$188 million as compared to EBITDA of HK\$26 million in 2018. The loss attributable to equity shareholders reduced to HK\$39 million as compared with a loss of HK\$80 million in 2018.

The Group adopted HKFRS 16 and changed its accounting policy on leases from 1 January 2019. If applying the previous accounting standard on leases for direct comparison purposes, the Group would have reported EBITDA in 2019 of HK\$116 million (2018: HK\$26 million) and loss attributable to equity shareholders of HK\$36 million (2018: HK\$80 million).

The improved 2019 results were mainly attributable to the continued good performance of our garment manufacturing business and our premium Italian sportswear brand C.P. Company; and offset by the investment in developing our licensed brands, Nautica and Spyder.

Despite reporting a positive EBITDA, the Group reported a loss attributable to equity shareholders, which is mainly caused by brands licence right amortisation and imputed interest on licence fees payable totalling HK\$53 million (2018: HK\$34 million), depreciation on own property, plant and equipment and income tax for the year.

### Own Brands

C.P. Company continued to report strong year-on-year growth in revenue with increased profitability. Revenue in year 2019 increased by 45% over 2018. Wholesale channel continued to pose strong growth in particular for sales to the UK, Italy, South Korea and France. UK and Italy remained the largest contributors accounted for over 50% of the C.P. Company revenue. Brand awareness, measured with the digital KPI (such as number of Google searches for the brand, social media growth and engagement) continued to grow fast worldwide. To complement the wholesale business, direct retail started in 2019 with the opening of Milan flagship store, Foxtown Mendrisio outlet and Beijing flagship. Retail expansion is strategic to build further brand awareness and allows us to collect and leverage end-consumer data (socio-demographic info, shopping preferences, interests, etc) to enhance client lifetime value. E-commerce has been performing well and there are still strong growth opportunities.

In 2019, C.P. Company marketing campaign kicked-off a two-season collaboration with hip hop Artist Rejjie Snow. The brand also had a successful launch of SS19 collaboration with Patta, an Amsterdam based retailer relevant in street culture. Co-labs enable us to unlock new targets, expand the territory and help the brand to reposition on key markets. Our marketing campaign "#EyesOnTheCity" continued to develop lifestyle communication featuring the brand's ambassadors around the world and their own unique vision on the city and the urban environment. Our design stories in the "Proprietary Technologies" series explain in detail about our products, innovation and garment know-how season by season.

Our unique French concept premium ladies wear Cissonne achieved good traction in the China premium ladies fashion market. The brand gradually expanded through direct retailing in China major cities with increasing sell-through. The brand has now five stores located in Shanghai Kerry Centre, Shanghai Grand Gateway 66, Beijing Oriental Plaza, Beijing China World Trade Center and Shanghai Zhenning Road respectively.

### Licensed Brands

In 2018, the Group took major steps towards establishing a long-term, sustainable business platform by entering into long-term licence agreements with Authentic Brands Group for two well-known, established international brands, Nautica and Spyder. For Nautica, the licensed territories include Mainland China, Hong Kong, and Macau and for Spyder include all of Greater China.

In 2019, Nautica had the first full year operation in China after the Group re-entered the licence in mid-2018. Since the Group re-licenses the brand, we have worked closely with the brand owner, retail operators, and landlords to energise and rebuild the brand and drive retail sell-through. We commence the brand's evolution towards becoming an easy-to-wear, functional, sports-lifestyle brand. With our strength in product development, we introduced our own designed collections from Spring 2019. The highlight of our brand development strategy is the design and launch of the "Black Sail" collection which features premium, technical fabrics and innovative designs. It is the "best of the best" from the Nautica brand and is only offered at our top stores. During the year, Nautica invested in celebrity/KOL campaigns to influence target consumers to drive affinity and sales. With an eye towards re-establishing the brand and fostering direct contact with our consumers, we have built out our direct retail network of stores in Tier 1 markets. While our positioning and strategies are right, it takes time and effort to redevelop the brand in the competitive China market. As of 31 December 2019, Nautica had 64 direct retail stores run by the Group and another 61 POS operated by partners.

On the back of resounding success in the Korea, Spyder has been well-received since its first launch to the China market in the second quarter of 2019. During the year, we have contracted important retail partners in several key markets across various regions of China. Retail sales, especially for a new brand, have been encouraging. Our design teams, in both Shanghai and Seoul, and our supply chain capabilities are strong and have enhanced our product offerings and customised styling for the China market. Marketing campaigns have been focusing on communicating the authenticity of the brand and its long history in the technical, competitive ski industry. Specialised IT systems are in place to garner and analyse first-hand consumer data and enable quick response to production opportunities as well as intelligence to maximise sales, enforce retail price strategies, and enhance inventory control. As of 31 December 2019, Spyder had 35 stores across 18 cities in China.



## Management Discussion and Analysis

### Garment Manufacturing

Our garment manufacturing business had encouraging growth in revenue and profitability in 2019 with healthy order growth from both key premium business customers and better business customers. Our diversified production base allows us to serve our customers at different price range. Our China and Thailand factories are serving our “premium business” for fashion and complicated outerwear products. Meanwhile, our Philippines, Vietnam and Myanmar factories allow us to stay competitive in cost to support our “better business” for better tailoring products. We continue to maintain steady and long-term relationship with our customers

and have also expanded our customer base. During the year, we implemented projects to improve material usage and control factory costs. We have also developed our Southeast Asian factories to manufacture outerwear products and relocated certain orders into our Vietnam factory to mitigate impact from US & China trade conflict. On applying our unique manufacturing system, it allows us to safeguard product quality, enhance efficiency as well as meeting customers’ stringent requirements. All these measures helped to achieve the profitable performance in the current year as well as control rising factory costs and price pressure from our customers.

### Financial Highlights

	Note	2019	2018	Change
<b>Operating results (HK\$ million)</b>				
Revenue		<b>3,001</b>	2,578	+16%
Gross profit		<b>829</b>	620	+34%
EBITDA		<b>188</b>	26	+623%
EBITDA if the previous accounting standard on lease still apply		<b>116</b>	26	+346%
<i>Amortisation of licence right</i>	1	<b>(32)</b>	(21)	-52%
<i>Interest on licence payable</i>	1	<b>(21)</b>	(14)	-50%
<i>Depreciation, amortisation and impairment on own assets</i>		<b>(67)</b>	(61)	-10%
Loss attributable to equity shareholders		<b>(39)</b>	(80)	+51%
Loss attributable to equity shareholders if the previous accounting standard on lease still apply		<b>(36)</b>	(80)	+55%
<b>Segment results (HK\$ million)</b>				
Garment manufacturing segment EBITDA		<b>192</b>	144	+33%
Garment manufacturing segment EBITDA if the previous accounting standard on lease still apply		<b>184</b>	144	+28%
Garment manufacturing segment results after tax		<b>136</b>	97	+40%
Garment manufacturing segment results after tax if the previous accounting standard on lease still apply		<b>137</b>	97	+41%
Brands business EBITDA		<b>(32)</b>	(120)	+73%
Brands business EBITDA if the previous accounting standard on lease still apply		<b>(84)</b>	(120)	+30%
<i>Amortisation of licence right</i>	1	<b>(32)</b>	(21)	-52%
<i>Interest on licence payable</i>	1	<b>(21)</b>	(14)	-50%
Brands business results after tax		<b>(177)</b>	(167)	-6%
Brands business results after tax if the previous accounting standard on lease still apply		<b>(172)</b>	(167)	-3%
<b>Financial position (HK\$ million)</b>				
Property, plant and equipment and leasehold land	2	<b>652</b>	309	+111%
Leasehold land and land use rights	2	<b>-</b>	126	-100%
Lease liabilities	2	<b>215</b>	-	N/A
Cash and bank balances		<b>285</b>	322	-11%
Bank borrowings		<b>65</b>	74	-12%
Total equity		<b>1,137</b>	1,177	-3%
<b>Cash flow and capital expenditure (HK\$ million)</b>				
Cash generated from/(used in) operations		<b>128</b>	(113)	+213%
Fixed rental payment for leased assets		<b>(72)</b>	-	N/A
Capital expenditure				
Property, plant and equipment		<b>(88)</b>	(48)	-83%
<b>Key ratios</b>				
Gross profit margin		<b>27.6%</b>	24.1%	+3.5pp
Net loss margin attributable to equity shareholders		<b>(1.3%)</b>	(3.1%)	+1.8pp
Return on average equity (ROE)	3	<b>(3.4%)</b>	(6.5%)	+3.1pp

#### Notes:

1. Licence related amortisation and interest on licence fee payable being non-cash items recognised in accordance with accounting policy for our long-term licences – Nautica and Spyder.
2. The increase in property, plant and equipment and lease liabilities and reclassification of leasehold land and land use rights are due to adoption of new accounting standard on leases with effective from 1 January 2019.
3. ROE is calculated as loss attributable to equity shareholders over average total equity for the current and prior year.

## Management Discussion and Analysis

### Financial Review

#### Change in Accounting Policy

The Group adopted HKFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated the 2018 comparative figures, as permitted under the transitional provisions in the new standard. The adjustments arising from the new standard are recognised in the opening balance on 1 January 2019. Under the new lease accounting, the Group is required to capitalise all leases when it is the lessee, other than those short-term leases within 12 months.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, and subsequently measured at amortised cost with interest expense calculated using the effective interest method. The associated right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made on or before the commencement date. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Items of statement of profit or loss impacted by HKFRS 16:

	2019				2018
	Amounts reported under HKFRS 16 (A) HK\$ million	Add back: HKFRS 16 depreciation and interest expense (B) HK\$ million	Deduct: Estimated amounts as if under HKAS 17 (C) HK\$ million	Hypothetical amounts for 2019 as if under HKAS 17 (A + B + C) HK\$ million	Compared to amounts reported for 2018 under HKAS 17 HK\$ million
<b>Reportable EBITDA</b>	<b>188</b>	<b>–</b>	<b>(72)*</b>	<b>116</b>	<b>26</b>
Depreciation on right-of-use assets, including prepaid leasehold land and land use rights	(70)	70	(4)	(4)	(4)
Interest on lease liabilities	(9)	9	–	–	–
<b>Loss for the year</b>	<b>(37)</b>	<b>79</b>	<b>(76)</b>	<b>(34)</b>	<b>(80)</b>
<b>Loss attributable to equity shareholders</b>	<b>(39)</b>	<b>78</b>	<b>(75)</b>	<b>(36)</b>	<b>(80)</b>

\* This represented estimate amounts relating to operating leases if the previous accounting standard HKAS 17 had still applied in 2019.

#### Revenue

Total revenue of the Group for the year 2019 was HK\$3,001 million (2018: HK\$2,578 million), representing an increase of 16% as compared with the last year.

Revenue from brands business was HK\$690 million in 2019, as compared with HK\$420 million in 2018. The increase was due to strong growth of wholesale by C.P. Company in key European countries, especially for Italy and the UK; and the increased revenue contribution from Nautica's full year operation plus Spyder's half year revenue.

Revenue from the garment manufacturing segment was HK\$2,311 million as compared with HK\$2,158 million in 2018. Revenue from premium business, which accounted for 68% (2018: 71%) of the segment revenue, increased by 2% as compared with last year. Such increase was due to continued order growth from key customers. Revenue from better business also increased by 17%,

The Group presents right-of-use assets under property, plant and equipment ("PPE") and lease liabilities are separately shown in the statement of financial position. Major effect on adopting HKFRS 16 is as follows:

Items of statement of financial position impacted by HKFRS 16:

	At 31 December 2019 HK\$ million	At 1 January 2019 HK\$ million
Right-of-use assets balance (for assets reclassified from leasehold land and land use rights on 1 January 2019)	<b>120</b>	126
Right-of-use assets balance for other leased assets	<b>207</b>	146
Lease liabilities balance	<b>215</b>	148

mainly from the growth of orders in our Southeast Asian factories. In general, sales of fashion and complicated outerwear products of our premium business shifted our peak production season to the second and third quarters while sales income are skewed towards Fall/Winter seasons.

Geographically, major markets of the Group are US and Canada, UK and the PRC, which accounted for 32% (2018: 37%), 27% (2018: 27%) and 17% (2018: 14%) of the Group's total revenue respectively.

The Group's business has been skewed towards the second half year mainly due to the seasonality effect in terms of higher quantity and unit selling price for Fall/Winter and holiday seasons shipment for both our garment manufacturing (in particular premium outerwear products) and brands business. The Group expects that the pattern of a larger proportion of sales and earnings record in the second half year will continue.

# Management Discussion and Analysis

## Gross Profit

During the year, the Group's overall gross profit recorded at HK\$829 million (2018: HK\$620 million), representing a gross profit margin of 27.6% (2018: 24.1%). The increase in gross profit was mainly attributable to increased turnover from both brands business and garment manufacturing business. Gross profit margin of brands business remained stable as compared with last year. Gross profit margin of the garment manufacturing business increased due to the continuous growth of the business, improvement in production efficiency and factory cost control. The Group's overall gross profit margin increased in 2019 due to the rise in revenue of overall higher margin brands business and the revenue growth of our manufacturing business.

## Other Income and Other Gains

Other income and other gains in the 2019 mainly included net gain on disposal of a Philippines subsidiary of HK\$10.91 million. The subsidiary was the owner of a parcel of land and certain factory buildings in the Philippines, and had been inactive since the Group consolidated its factory operation in the Philippines in early years.

## Selling and Distribution Expenses

Selling and distribution expenses comprise mainly advertising and promotion, agency commission, shop expenses and commission to channel partners. Selling and distribution expenses increased as compared to 2018 mainly due to full year Nautica shop and selling expenses, spending for Spyder started in this year and increase in distribution expenses for C.P. Company in line with revenue growth.

## General and Administrative Expenses

General and administrative expenses increased as compared with 2018 mainly due to the growth of our brands business.

## Income Tax Expenses

Income tax expenses increased in this year mainly due to higher profit from our garment manufacturing business and the profit arising from C.P. Company.

## Segment Results

In 2019, brands business reported a segment loss of HK\$177 million as compared with a loss of HK\$167 million in 2018. Our own brand C.P. Company has been performing well and reported a net profit in 2019. Segment loss of the brands business as a whole increased in the current year was mainly due to the early redevelopment and development stages for the Nautica and Spyder businesses respectively and increase recognition of licence right amortisation and imputed interest on licence fees payable for the two brands.

In 2019, garment manufacturing business recorded a profit of HK\$136 million as compared with HK\$97 million in the last year. The encouraging profit increase is mainly due to the increased revenue and gross profit.

## Financial Resources and Liquidity

As at 31 December 2019, cash and bank balances amounted to HK\$285 million (31 December 2018: HK\$322 million) which mainly represented United States dollars ("US dollars") and Renminbi bank deposits. The Group maintained sufficient banking facilities to support its business. Short-term bank borrowings of the Group amounted to HK\$65 million as at 31 December 2019 (2018: HK\$74 million). Such borrowings were mainly denominated in US dollars and Renminbi and bearing interest at fixed rates. The Group did not have long-term bank borrowings as at 31 December 2019 and 2018. As at 31 December 2019, bank deposits of HK\$34 million (2018: HK\$31 million) was pledged to secure bank guarantee facilities granted to the Group. Gearing ratio of the Group is calculated as net borrowings divided by total capital. Net borrowings are calculated as total bank borrowings less cash and bank balances, while total capital comprised total equity plus net borrowings. The Group did not have net borrowings as at 31 December 2019 and 2018, and accordingly, no information on gearing ratio as at that dates is provided.

Shareholders' equity at 31 December 2019 decreased mainly due to loss attributable to equity shareholders for the current year.

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi, Pound Sterling and Euro. Management monitors the related foreign exchange risk exposure by entering into forward foreign exchange contracts. During the year ended 31 December 2019, the Group had forward foreign exchange contracts to hedge against the foreign exchange exposures arising from US dollars denominated processing income for factories in the PRC and Pound Sterling and Japanese Yen sales receipts of a European subsidiary.

## Contingent Liabilities and Capital Commitments

Apart from the capital commitment disclosed in Note 35(a) to the consolidated financial statements, there was no other material capital commitments or contingent liabilities as at 31 December 2019 which would require a substantial use of the Group's present cash resources or external funding.

## Human Resources

The Group had about 9,650 employees as at 31 December 2019 (2018: 9,860). Fair and competitive remuneration packages and benefits are offered to employees. Those employees with outstanding performance were also awarded discretionary bonuses and share options.

## Events After the Reporting Period

The outbreak and rapid spreading of 2019 Novel Coronavirus ("COVID-19") since early 2020 across continents have created unprecedented disruptions to the movement of people, goods and supply chains. It has been affecting the Group's business and is expected to have negative impact on the Group's financial performance in 2020. However, at the date of this Annual Report, it is not practicable to estimate its full financial effect to the Group. The Group has actively put in place measures in mitigating its impact. The Group will closely monitor the development and will keep its alleviating measures under regular review.

# Management Discussion and Analysis

## Outlook

The Group is dedicated to growing our brands business and at the same time continuing to strengthen our garment manufacturing business. The coronavirus outbreak since January 2020 has affected the Group's operations and is expected to have impact on the Group's 2020 financial performance.

### Brands Business

In Europe, vast area has been put in lockdown amid the COVID-19 epidemic. This has caused disruption to our C.P. Company business in Europe. C.P. Company, our major own brand has a sound business foundation. The brand has year-on-year double-digit growth in revenue and the momentum for the brand is very positive since acquisition. We are closely monitoring the development and communicate with distributors and suppliers for rearranging inventory orders and put on-hold special collaboration projects. We believe the brand is well placed to return to strong upward momentum when the COVID-19 situation normalises. We will expand our collections to drive revenue while keeping a premium position.

In Mainland China, stores of our licensed brands were temporarily closed in late January and all of February 2020. While stores in Mainland China are resuming operation, footfall is expected only to recover gradually. To deal with the situation, the Group has taken measures to put on hold or delay new store openings and material investments, negotiate rental concession, rearrange purchase orders and strengthen cost control. While the first half year will be tough for every sector, the market demand in China will remain and is expected to gradually back to normal. For Nautica, we will expand the "Black Sail" collection with the introduction of more innovative items, as well as our first women's collection which will drive per store revenue. The brand has set up its official website and online shop in China to expand e-commerce sales. Spyder has been well-received since its launch to the China market. We will resume to judiciously expand retail into key locations when the epidemic situation is stabilised.

## Principal Risks and Uncertainties

The Group has an enterprise risk management mechanism in place to identify, evaluate and manage its exposure to risks. Management oversees the risks and implement robust business processes to mitigate the risks. Existing and emerging risks are identified, evaluated and tracked regularly by top management and reported to the Audit Committee.

Principal risks and uncertainties affecting the Group are outlined below:

External Risks	Operational Risks	Financial Risks
Macroeconomic Environment	Increased Cost	Liquidity and Interest Rate
Business Partner's Change in Business Strategy	Environment & Social Responsibility	Foreign Exchange
Regulatory Risks	IT Risks	
	Business Interruption	

## Garment Manufacturing

Our garment manufacturing business has recorded encouraging performance in 2019. COVID-19 is spreading around the world and has created challenges and uncertainties to the global trading environment. All our factories in Mainland China have resumed operation by end of February 2020 with over 90% attendance rate in March. In response to the outbreak, our Philippines factory has suspended operation since 20 March as required by the local authority. Our other factories in Southeast Asia remain at normal operation. The global outbreak has caused disruptions to both our production and the business of our customers with temporary shut down of retail stores and supply chain facilities. The epidemic impacts market sentiment and demand. Our customers are reassessing their inventory level and discounting orders due to the weak customer demand. We have ongoing communication with our customers and suppliers to closely manage the situation, and at the same time strengthening cost control in all areas of our operations. We believe that the challenges could be alleviated by our diversified production base, our effort to rationalise material usage and drive efficiency, and by applying our unique manufacturing system in our factories to enhance our competitiveness.

The duration of the epidemic and the scale of its impact remain uncertain. The Group will use our best effort to contain its impact to our operation and financial performance. We believe our garment manufacturing business and C.P. Company brand business have sound and solid foundation to weather the challenge. The Group will be very cautious and prudently develop our long-term licensed brands Nautica and Spyder in this year. With COVID-19 outbreak, the Group's 2020 financial performance will inevitably be affected. With the Group's solid experience together with our bank balances and adequate bank credit facilities, we have confidence to overcome this challenge and are confident in the long-term growth and sustainability of the Group.

## Management Discussion and Analysis

The responses of the Group to the principal risks and uncertainties are set out below:

Nature of Risk	Responses
<b>External Risks</b>	
<b>Macroeconomic Environment</b>	
<ul style="list-style-type: none"> <li>The principal business activities of the Group are garment manufacturing and brands business with worldwide customers located in Europe, North America and Asia. The industries in which the Group operates are affected by the economic conditions and consumer spending behaviour in these countries. Change in economic condition and consumer spending behaviour may reduce the demand of our products.</li> </ul>	<ul style="list-style-type: none"> <li>Geographic spread of customers and multiple sales channels will mitigate localised economic risks.</li> <li>Annual budget is approved by the Board.</li> <li>Quarterly financial performance and forecast are reported to the Board.</li> <li>Internal review between Business Unit Heads and Corporate Finance Team on the monthly financial performance.</li> <li>Monthly rolling forecast review where annual budget will be compared with actual and forecast figures. Variance analysis to account for the difference between budget and actual figures.</li> <li>Monthly meeting to review business, sales and marketing performance.</li> </ul>
<b>Business Partner's Change in Business Strategy</b>	
<ul style="list-style-type: none"> <li>Garment manufacturing customer's strategy change in sourcing locations and competitive pricing may cause the Group to lose orders and revenue.</li> <li>Change in market entry and licensing strategy by brand owners of our licensed brands may cause the Group to lose distribution rights in licensing branded products.</li> </ul>	<ul style="list-style-type: none"> <li>Our factories are located in different countries and serve a wide range of products with different price levels.</li> <li>The Group's ongoing strategy in developing our own brands and long term licensed brands business will help to sustain the revenue of brands business.</li> </ul>
<b>Regulatory risks</b>	
<ul style="list-style-type: none"> <li>The Group is increasingly subject to a broad and changing legal, tax, and regulatory requirements in the various jurisdictions the Group operates. New and changing policies or applications by governments may pose a risk to the Group's returns and/or subject the Group to legal challenge.</li> </ul>	<ul style="list-style-type: none"> <li>The Group continually monitors changes in local government policies and legislation.</li> <li>Ongoing long-term strategic reviews with assessment of market and country concentration.</li> </ul>
<b>Operational Risks</b>	
<b>Increased Cost</b>	
<ul style="list-style-type: none"> <li>Increased cost will impact the profitability of our business.</li> </ul>	<ul style="list-style-type: none"> <li>For our brands business, we have our own sourcing team with diversified supply network to handle product sourcing.</li> <li>For garment manufacturing business, our Group effectively earns cut and make profit. Increased cost in fabric material has little impact to the Group.</li> <li>Diversification of factories and supply chain in various countries in Asia and production process improvements will help to offset the rise in wages and staff costs.</li> </ul>
<b>Environment and Social Responsibility</b>	
<ul style="list-style-type: none"> <li>Failure to comply with applicable laws, regulations or standards related to environment and social responsibility may adversely impact our employees, lose production time and attract negative media attention and regulators' interest.</li> </ul>	<ul style="list-style-type: none"> <li>Manage internal controls over our significant environmental aspects with aim to enhance the efficiency of resource use and reduce environmental emissions in our business operation.</li> <li>Apply equal opportunities principles in all employment policies.</li> </ul>

## Management Discussion and Analysis

Nature of Risk	Responses
<b>Operational Risks</b> (Continued)	
<b>IT Risks</b>	
<ul style="list-style-type: none"> <li>- When there is IT system outage or cyberattack, all the IT systems may come to a halt causing not only business interruption but also loss of confidential information such as personal data of employees or consumers of the e-shop.</li> </ul>	<ul style="list-style-type: none"> <li>- Appropriate controls and technology have been deployed to mitigate the risk of system outage and cyberattack. They include preventive system maintenance, regular security checks, installation of fire-wall and anti-virus software, multi-level security, uninterrupted power supply, daily off-site backup of key application systems and data, regular disaster recovery drill, assignment of job-related access rights, well-defined access controls system.</li> <li>- Although e-shop is run on a third-party platform which is operated by an on-line distributor, the e-Commerce service agreement specifies that the on-line distributor should maintain and update all the technological elements necessary to guarantee the proper functioning of the e-shop, the safety of the systems underlying the e-shop and the protection of the personal data according to applicable laws and market practices.</li> </ul>
<b>Business Interruption</b>	
<ul style="list-style-type: none"> <li>- The Group's operations may be interrupted by the occurrence of unexpected events like natural disasters, strikes, epidemics and occupational hazards that may or may not be under the Group's control.</li> <li>- The widespread community transmission of COVID-19 may cause disruption in supply chain, and interruption of business operations.</li> </ul>	<ul style="list-style-type: none"> <li>- Proactive sourcing of suppliers in different countries and regional production facilities help to reduce the reliance on any single site.</li> <li>- Constant communication with customers for keeping them abreast of any potential disruption of services and endeavour to seek their support and understanding.</li> <li>- Work from home with the use of conference call, video conferencing and remote access to the Group's IT systems.</li> </ul>
<b>Financial Risks</b>	
<b>Liquidity and Interest Rate</b>	
<ul style="list-style-type: none"> <li>- Cash and treasury management may not be operating effectively leading to liquidity risk.</li> <li>- Cash flows and profitability will be negatively impacted by the movement of interest rates on bank balances and bank borrowings.</li> </ul>	<ul style="list-style-type: none"> <li>- Closely monitor to ensure that the combination of cash on hand, available credit lines and expected future operating cash flows is sufficient to satisfy current and planned cash needs.</li> <li>- Closely monitor the movement of market interest rate and consider interest rate hedging when necessary.</li> </ul>

## Management Discussion and Analysis

Nature of Risk	Responses
<b>Financial Risks</b> (Continued)	
<b>Foreign Exchange</b>	
<ul style="list-style-type: none"> <li>The Group has operations in the PRC, Europe, North America and various Asian countries. It earns revenues, incurs costs and makes investments in various foreign currencies and is thus exposed to foreign exchange risk arising from various currency exposures.</li> <li>The conversion of Renminbi receipts into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange in the PRC.</li> </ul>	<ul style="list-style-type: none"> <li>The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts. Our hedging strategy may not be effective in reducing all exchange risks.</li> <li>The Group endeavours to maintain adequate and reasonable amount of Renminbi deposits in the PRC and remit surplus Renminbi out of the PRC.</li> </ul>

### Relationship with Business Partners and Stakeholders

#### Relationship with Customers

The Group maintains long-term relationships with customers of our garment manufacturing and branded products distribution business. The Group has developed multi-products strategy and also strengthened our scope of services to our global brands customers. The Group has no concentration or a high level of dependency on individual customer.

#### Relationship with Suppliers

The Group maintains long-term relationships with suppliers and subcontractors. The Group has no concentration or a high level of dependency on a small group of suppliers. The suppliers of our garment manufacturing business are generally nominated by customers. For suppliers of our branded business, we communicate with them all the way through for them to understand our policies and requirements.

#### Relationship with Employees

The Group recognises and supports the culture of attracting, motivating and retaining talents. The Group provides competitive compensation and benefits for its employees. Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on individual performance and financial performance of the Group. Those employees with outstanding performance are also awarded discretionary bonuses and share options. The Group promotes open communications, encourages continuous learning and support different kind of training on leadership development programme.

### Compliance with Relevant Laws and Regulations

We uphold high standards and meet relevant requirements under applicable laws or ordinances when conducting our business. We did not identify non-compliance or breach of relevant standards, rules and regulations during the year.

### Environmental and Social Policies

The Group is committed to creating a sustainable and greener environment and continues to explore ways to reduce carbon emissions, conserve energy and reduce wastage. We have implemented various environmental and sustainability initiatives in our factories. Being a responsible social citizen, the Group has been committed to supporting various charitable events, including making donations in relation to education, disaster reliefs and for the less-privileged, in particular supporting local society needs where our group companies locate for the long term. Since 2015, the Company has been participating in the "Caring Company" Scheme and we collaborated with The Salvation Army on various charitable activities, such as fund raising and volunteer works. Our "Environmental, Social and Governance Report" which discusses in detail our initiatives on environmental and social aspects and their performance is set out in the "Environmental, Social and Governance Report" section of this Annual Report.

# Corporate Governance Report

## Corporate Governance Practices

The Board is committed to maintaining good corporate governance and recognises the importance of effective corporate governance.

Throughout the year ended 31 December 2019, the Company has complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for the deviation from Code Provisions A.2.1 and A.5.

Details of the corporate governance practices adopted by the Company are set out below.

## The Board

### Board Composition

The Board currently comprises one Executive Director, Mr. WANG Kin Chung, Peter, who is also the Chairman and the Chief Executive Officer ("CEO") of the Company; three Non-Executive Directors, namely Ms. WANG KOO Yik Chun, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick; and three Independent Non-Executive Directors, namely Mr. LO Kai Yiu, Anthony, Mr. James Christopher KRALIK and Mr. Peter TAN. Biographies of the Directors are set out in the "Directors' and Senior Management's Profiles" section of this Annual Report.

Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company and a Non-Executive Director, is the mother of Mr. WANG Kin Chung, Peter (the Chairman and the CEO), Ms. MAK WANG Wing Yee, Winnie (Non-Executive Director) and Dr. WANG Shui Chung, Patrick (Non-Executive Director).

All Directors are identified by category of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in all corporate communications that disclose the names of Directors of the Company.

The Company maintains on its website and on the Stock Exchange's website an updated list of its Directors identifying their role and function.

### Chairman and Chief Executive Officer

During the year ended 31 December 2019 and up to the date of this Annual Report, Mr. WANG Kin Chung, Peter is the Chairman and the CEO, and that the functions of the Chairman and the CEO in the Company's strategic planning and development process overlap. These constitute a deviation from Code Provision A.2.1 which stipulates that the roles of the Chairman and the CEO should be separate and should not be performed by the same individual.

Mr. WANG Kin Chung, Peter has been with the Group since 1999 and has considerable experience in the garment industry. He provides leadership for the Board in leading, considering and setting the overall strategic planning and business development of the Group. Given the current size of the Group and its present stage of development, the Board considers that it is in the interests of the Group that Mr. WANG Kin Chung, Peter holds both the offices of the Chairman and the CEO so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board in a timely manner on key issues and developments.

Given that there is a balanced Board with more than one-third of its members being Independent Non-Executive Directors, the Board is of the view that there is a strong independent element in the Board to exercise independent judgement and provide sufficient check and balance.

### Appointment and Election of Directors

The Company has not established a nomination committee owing to the small size of the Board. The Board as a whole shall perform the duties of a nomination committee set out in Code Provision A.5. This constitutes a deviation from Code Provision A.5 which stipulates that every listed company should establish a nomination committee.

Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a specific term of three years commencing 1 January 2020, subject to re-election or earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. All Directors of the Company (save for any executive chairman and any managing director) shall be subject to retirement by rotation at least once every three years and that a Director may voluntarily retire. A retiring Director shall be eligible for re-election.

Accordingly, at the forthcoming annual general meeting of the Company to be held on 8 June 2020 (the "2020 AGM"), Ms. WANG KOO Yik Chun and Mr. Peter TAN will retire by rotation and, being eligible, offer themselves for re-election as Directors in accordance with the Company's Bye-Laws.

The Board has assessed the independence of Mr. Peter TAN who has been Independent Non-Executive Director of the Company for more than nine years and considers that he continues to be independent, notwithstanding the length of his tenure, as he satisfied all the criteria for independence as set out in Rule 3.13 of the Listing Rules. The re-election of Mr. Peter TAN as Independent Non-Executive Director will be subject to a separate resolution to be approved by shareholders at the 2020 AGM.

Particulars of the aforesaid retiring Directors, reasons and recommendation of the Board for their re-elections are set out in a circular of the Company to be despatched to shareholders together with this Annual Report.



# Corporate Governance Report

## Nomination Policy

The Board adopted a nomination policy with an aim to set out the criteria and procedures when considering candidates to be appointed or elected/re-elected as Directors of the Company.

The Board as a whole performs the duties and functions of nomination of Directors in the absence of nomination committee. When considering a candidate nominated for directorship or a Director's proposed election/re-election, the Board will have regard to the following criteria:

- (i) including, but not limited to, gender, age, ethnicity, cultural and educational background, professional experience, skills, knowledge and other qualities which are listed in the Company's adopted board diversity policy (the "Board Diversity Policy");
- (ii) how he/she can contribute to the diversity of the Board;
- (iii) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices currently held by the candidate in public companies or organisations, and other significant commitments will be considered;

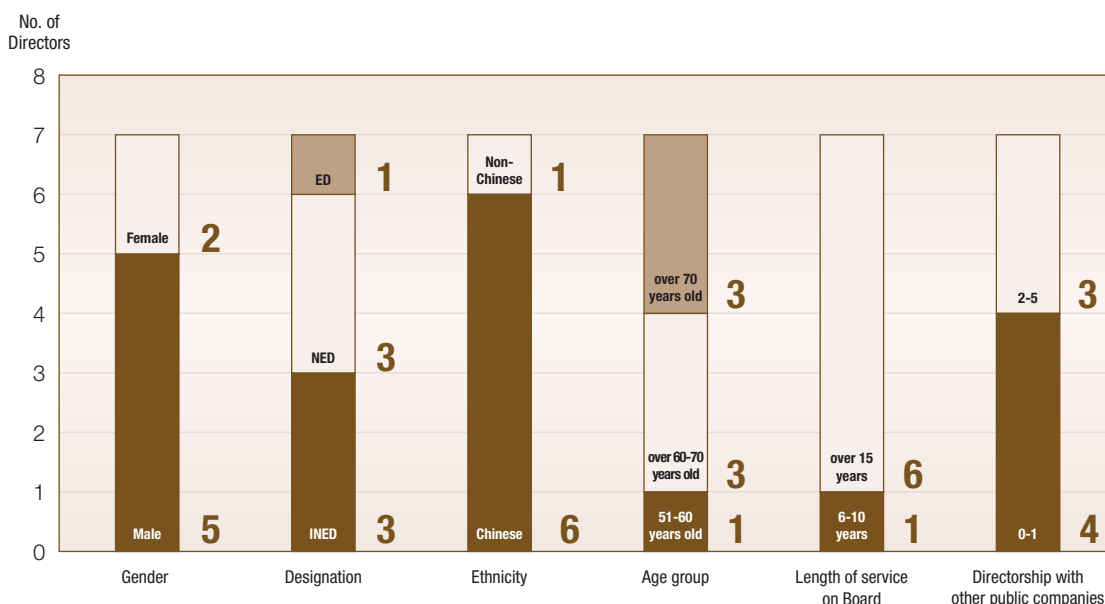
- (iv) potential/actual conflicts of interest that may arise if the candidate is selected;
- (v) in the case of a proposed appointment and election/re-election of an Independent Non-Executive Director, independence of the individual pursuant to the criteria set out in the Listing Rules;
- (vi) in the case of a proposed election/re-election of an Independent Non-Executive Director, the number of years he/she has already served; and
- (vii) other factors considered by the Board to be relevant on a case by case basis.

Subject to the provisions in the Company's Bye-Laws, if the Board recognises the need to appoint an additional Director, it will identify or select candidates recommended, with or without assistance from external agencies, pursuant to the criteria set out above. The Board deliberates and decides on the appointment. All appointments of Director should be confirmed by letter of appointment setting out terms and conditions of the appointment, which shall be approved by the Board; and where shareholders are required to vote on proposed appointment or electing/re-electing a Director, the Company shall disclose in the circular accompanying the notice of the relevant general meeting all the information of the individual required under the Listing Rules as appropriate.

## Board Diversity

The Board annually reviews its structure, size and composition to ensure the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to implement the business strategy of the Group and in order for the Board to be effective.

The Board has adopted the Board Diversity Policy with an aim to set out the approach to achieve diversity on the Board. Pursuant to the policy, board diversity would be considered from a number of factors including, but not limited to, gender, age, ethnicity, cultural and education background, professional experience, skills and knowledge. An analysis of the current Board composition is set out in the following chart:



ED : Executive Director  
 NED : Non-Executive Director  
 INED : Independent Non-Executive Director

# Corporate Governance Report

## Roles and Responsibilities

The Company is headed by an effective Board which assumes responsibility for its leadership and control and is collectively responsible for promoting its success by directing and supervising its affairs. The Directors take decisions objectively in the best interests of the Group.

The Board is mainly responsible for setting and approving the Company's strategic direction and planning all important matters including the preparation of interim and annual results, annual financial budget, and business and operation plans.

The Company has a formal schedule of matters specifically reserved for Board approval. Matters explicitly reserved for the Board's decision include, amongst other things, (i) the size, composition, structure and role of the Board and the Board committees, (ii) the suitability of any individual as a member of the Board or the Board committees, (iii) the appointment and removal of the CEO, (iv) monitoring the performance of the CEO to ensure the Group is in alignment with its strategic direction, and (v) the performance of corporate governance duties set out in Code Provision D.3.1. Responsibility for delivering the Company's objectives and running the business on a day-to-day basis is delegated to the management.

Non-Executive Directors and Independent Non-Executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and Board committees meetings bring independent judgement and advice on issues relating to the Group's strategies, performance and management process, to ensure that the interests of all shareholders are taken into account and safeguarded.

The Board periodically reviews the Company's practices on corporate governance, compliance with the CG Code, training and continuous professional development of Directors and Senior Management, and the disclosure in this report.

## Independence of Non-Executive Directors

The Company has received from each of the three Independent Non-Executive Directors a written annual confirmation of his independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. Effective from 1 January 2019, these written confirmations also covered the immediate family members of each of the Independent Non-Executive Directors. Among the Independent Non-Executive Directors of the Company, none of them hold cross-directorships with other Directors.

## Induction and Development

Every newly appointed Director of the Company would receive a comprehensive and tailored induction on appointment. Subsequently he/she would receive any briefing necessary to ensure that he/she has a proper understanding of the Group's operations and business and is fully aware of his/her responsibilities under statutes, the Listing Rules and other applicable legal and regulatory requirements.

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2019, the Directors participated in the following continuous professional development:

Directors	Types of training
<b>Executive Director:</b> Mr. WANG Kin Chung, Peter	A, C
<b>Non-Executive Directors:</b> Ms. WANG KOO Yik Chun Ms. MAK WANG Wing Yee, Winnie Dr. WANG Shui Chung, Patrick	A, C A, C A, B, C
<b>Independent Non-Executive Directors:</b> Mr. LO Kai Yiu, Anthony Mr. James Christopher KRALIK Mr. Peter TAN	A, C A, C A, C

- A: attending seminars, conferences and/or briefings on directors' duties and corporate governance, regulatory updates, and financial and economic development
- B: giving speech at seminars and/or conferences
- C: reading regulatory updates, newspapers, journals, and other business, financial and economic publications

## Board Process

The Board requires Directors to devote sufficient time and attention to their duties and the Company's affairs. The Directors are also required to disclose to the Company annually the number and nature of offices held in public companies or organisations and other significant commitments with an indication of the time involved.

The Board meets regularly and Board meetings are held at least four times a year at quarterly intervals. Dates of regular Board meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend. In addition, notice of at least 14 days is given for each regular Board meeting and the Directors are given opportunity to include matters for discussion in the agenda.

For regular Board meetings, and as far as practicable in all other cases, an agenda and accompanying Board papers are sent, in full, to all Directors at least three days before the meeting date.

Minutes of the meetings of the Board and Board committees are kept by the Company Secretary. Draft and final versions of minutes are sent to all Directors for their comment and records respectively, within a reasonable time after the meeting is held.

The Directors, upon reasonable request, may seek independent professional advice at the Company's expense, to assist the performance of their duties.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would be dealt with by a physical Board meeting rather than a written resolution.

The Company has arranged directors' and officers' liability insurance in respect of any legal action against Directors.

# Corporate Governance Report

## Directors' Attendance Records

During the year ended 31 December 2019, four regular Board meetings have been held. The attendance of each Director at these Board meetings, Board committee meetings and the 2019 AGM is set out below:

	Number of meetings attended/held			
	Board	Audit Committee	Remuneration Committee	2019 AGM
<b>Executive Director:</b>				
Mr. WANG Kin Chung, Peter	4/4	N/A	N/A	1/1
<b>Non-Executive Directors:</b>				
Ms. WANG KOO Yik Chun	2/4	N/A	N/A	0/1
Ms. MAK WANG Wing Yee, Winnie	4/4	3/3	2/2	1/1
Dr. WANG Shui Chung, Patrick	4/4	N/A	N/A	0/1
<b>Independent Non-Executive Directors:</b>				
Mr. LO Kai Yiu, Anthony	4/4	3/3	2/2	1/1
Mr. James Christopher KRALIK	4/4	2/3	1/2	0/1
Mr. Peter TAN	3/4	N/A	1/2	0/1

N/A: Not applicable

## Delegation by the Board

### Board Committees

Board committees have been formed with specific written terms of reference which deal clearly with their authority and duties.

The Board has established the Audit Committee and the Remuneration Committee with terms of reference including the specific duties set out in the Code Provisions with appropriate modifications where necessary.

Apart from the Audit Committee and the Remuneration Committee, the Board has also established a Share Option Committee which comprises an Executive Director and a Non-Executive Director to deal with the administration of the share option scheme of the Company.

The terms of reference of the Audit Committee and the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

### Audit Committee

The Audit Committee is responsible for reviewing the Company's financial information and overseeing the Company's financial reporting system, risk management and internal control systems.

A majority of the members of the Audit Committee are Independent Non-Executive Directors. During the year ended 31 December 2019 and up to the date of this Annual Report, the members of the Audit Committee are:

#### Non-Executive Director:

Ms. MAK WANG Wing Yee, Winnie

#### Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony  
Mr. James Christopher KRALIK

Mr. LO Kai Yiu, Anthony is the Chairman of the Audit Committee and has the professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

None of the three Audit Committee members is a former partner of the Company's external auditor.

The Board agrees with the Audit Committee's proposal for the re-appointment of KPMG as the Company's external auditor for 2020. The recommendation will be presented for the approval of shareholders at the 2020 AGM.

The Audit Committee is provided with sufficient resources to perform its duties and has access to professional advice if necessary.

Upon recommendation of the Audit Committee, the Board has adopted a whistleblowing policy which provides a channel to employees of the Group to raise concerns, in confidence, about misconduct, malpractice or irregularities in any matters related to the Group. The policy is published on the website of the Company.

The attendance of each member at the Audit Committee meetings held during the year ended 31 December 2019 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2019, the Audit Committee held three meetings and the work performed is set out below:

- (i) discussed the change of the Group's chief financial officer;
- (ii) reviewed the 2019 annual budget and 2019 internal audit plan;
- (iii) reviewed the draft annual report and audited financial statements of the Group for the year ended 31 December 2018 and recommended the same to the Board for approval;
- (iv) made recommendation to the Board on the appointment of the external auditor at the 2019 AGM and considered the proposed external auditor's remuneration;
- (v) reviewed the draft interim report and unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2019 and recommended the same to the Board for approval;

## Corporate Governance Report

- (vi) reviewed the audit service plan from the external auditor, reviewed their independence and discussed with them the nature and scope of audit for the year ended 31 December 2019 and their reporting obligations, considered and approved their terms of engagement;
- (vii) reviewed the report on the annual review of internal control system and risk assessment, and periodic internal audit progress reports;
- (viii) reviewed the risk management framework and risk management update;
- (ix) monitored the whistleblowing policy program throughout the year;
- (x) reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions, and their training programmes and budget; and
- (xi) reviewed compliance and regulatory issues.

### Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy. It has the delegated responsibility for the formulation, determination and review of the remuneration packages of Directors and Senior Management. No Director is involved in deciding his/her own remuneration.

A majority of the members of the Remuneration Committee are Independent Non-Executive Directors. During the year ended 31 December 2019 and up to the date of this Annual Report, the members of the Remuneration Committee are:

#### Non-Executive Director:

Ms. MAK WANG Wing Yee, Winnie

#### Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony  
Mr. James Christopher KRALIK  
Mr. Peter TAN

Mr. James Christopher KRALIK is the Chairman of the Remuneration Committee.

The Remuneration Committee is provided with sufficient resources to perform its duties and has access to professional advice if necessary.

The attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2019 is set out in the "Directors' attendance records" section of this report.

During the year ended 31 December 2019, the Remuneration Committee held two meetings and the work performed is set out below:

- (i) reviewed and approved the remuneration packages of the Directors and Senior Management;
- (ii) reviewed and approved the recommendation to the Board on the grant of share options; and
- (iii) considered and approved the incentive scheme for business units.

### Management Functions

The day-to-day management of business of the Group is delegated to management. The Board has given clear directions to management on the matters that must be approved by it before decisions are made on the Company's behalf.

The Board has adopted the terms of reference of the Board and management to formalise the functions reserved to the Board and those delegated to management. The terms of reference are subject to periodic review to ensure that they remain appropriate to the Group's needs.

Management of the Group is aware that it has an obligation to supply the Board and its committees with adequate, complete and reliable information, in a timely manner, to enable them to make informed decisions. The Board and individual Director have separate and independent access to the Company's senior management. All Directors are entitled to have access to Board papers and related materials. Queries raised by Directors would receive a prompt and full response.

### Remuneration of Directors and Senior Management

The emoluments payable to the Directors are determined at arm's length on the basis of the responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions. At the 2019 AGM, the shareholders approved the authorisation of the Directors to fix their remuneration.

The policy adopted for the remuneration of the Non-Executive Directors since 1 January 2015 is set out below:

- (i) Annual director's fee for each Non-Executive Director HK\$49,500
- (ii) Meeting attendance fees for each Non-Executive Director

	Column A (As Chairman/ Chairlady) <i>(Note 1)</i>	Column B (As participating member) <i>(Note 2)</i>
Fee for attending each Board meeting	HK\$20,650	HK\$20,650
Fee for attending each Audit Committee meeting	HK\$41,300	HK\$20,650
Fee for attending each Remuneration Committee meeting	HK\$12,400	HK\$12,400
Fee for attending each Board committee meeting	HK\$33,000	HK\$16,500
Fee for attending each independent Board committee meeting	HK\$33,000	HK\$16,500
Fee for attending each Share Option Committee meeting	HK\$8,250	HK\$8,250

#### Notes:

1. If a Director acts as the Chairman/Chairlady at the relevant meeting, he/she will be entitled to the fee set out under column A.
2. If a Director participates in the relevant meeting as a participating member (but he/she does not act as the Chairman/Chairlady), he/she will be entitled to the fee set out in column B.

## Corporate Governance Report

The remunerations of members of Senior Management for the year ended 31 December 2019 are within the following bands:

	Number of individuals
Up to HK\$3,000,000	4
HK\$3,000,001 to HK\$6,000,000	2
	6

### Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

In addition, the Board has formally adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

### Accountability and Audit

#### Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management provides the Board with monthly updates on the Group's performance and financial highlights.

The Directors acknowledge that they are responsible for preparing the accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2019, the Directors have:

- (i) selected appropriate accounting policies and applied them consistently;
- (ii) made judgements and estimates that are prudent and reasonable; and
- (iii) prepared the accounts on a going concern basis.

A statement by the Auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 45 to 47.

#### Risk Management and Internal Controls

The risk management and internal controls system has been designed to protect the Group's assets against unauthorised use or disposition, maintain proper accounting records and reliable financial information, facilitate the effectiveness and efficiency of operations and ensure compliance with applicable laws, rules and regulations.

The Board, recognising the importance of sound and effective risk management and internal controls system, has developed an Enterprise Risk Management framework ("ERM framework") to help the Group achieve its business objectives.

Under the ERM framework, a set of policy and procedures have been established for the purposes of identifying the enterprise risks faced by the Group in the existing operating environment as well as evaluating the impact of such risks identified; developing the necessary measures for managing these risks; and monitoring and reviewing the effectiveness and adequacy of such measures. Assisted by the internal audit department, the Board conducts annual review of the enterprise risks with the aim of ensuring emerging risks are timely identified and adequate risk mitigation measures are properly implemented by management.

The ERM framework serves 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.

The Board, through the Audit Committee, has reviewed the adequacy and effectiveness of the risk management and internal control system for the year ended 31 December 2019. It is not aware of any major issue of concern and considers the risk management and internal control system adequate and effective. Appropriate measures have been taken to address areas identified for improvement.

Both the Board and the Audit Committee have reviewed and are satisfied with the adequacy of resources, including staff qualifications and experience, training programmes and budget, of the Group's accounting, internal audit and financial reporting functions.

#### Inside Information Policy

The Group has adopted a policy setting out the practices and procedures for ensuring inside information of the Group is promptly identified, assessed and disseminated to the public in an equal and timely manner in accordance with applicable laws and regulations. Proper safeguards are in place to prevent the breach of disclosure requirements and access to inside information is restricted to a limited number of employees on a need-to-know basis. Directors, officers and all relevant employees of the Group who have possessed inside information are required to preserve confidentially of inside information until it is publicly disclosed.

#### Internal Audit Function

The Group's enterprise risk management and internal controls system is evaluated by the internal audit department independently on an ongoing basis. Internal audit department adopts a risk-based approach in developing the annual audit plan which is reviewed and approved by the Audit Committee. Audit activities covering business activities with material risks across the Group on a rotational basis are designed and prioritised based on the results of risk assessment.

During the year ended 31 December 2019, the tasks performed by internal audit department are as follows:

- (i) conduct independent regular audits of financial, operational and compliance controls and risk management functions of the Group in accordance with internal audit plan;
- (ii) conduct special reviews and investigations of areas of concern identified by the Board and the management; and
- (iii) oversee the whistle-blowing mechanism.

## Corporate Governance Report

To preserve the independence of the internal audit department, the Head of Internal Audit has unrestricted direct access to the Audit Committee and reports directly to the Audit Committee. In every Audit Committee meeting, the Head of Internal Audit reports to the Audit Committee on significant findings on risk management and internal controls, as well as the implementation status of corrective actions committed by management.

### Auditor's Remuneration

In 2019, remunerations paid to KPMG, the Company's external auditor, and its associates in respect of audit and non-audit services provided to the Group are set out below:

	2019 HK\$'000
Annual audit fees	2,898
Tax services fees	236
Other services fees	518
Total	3,652

### Company Secretary

The Company Secretary supports the Board by ensuring good information flow within the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.

The Company Secretary is an employee of the Company and has satisfactorily fulfilled the professional training requirement.

## Shareholders Relation

### Shareholders Engagement and Communication

The Board endeavors to maintain an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourages their participation.

At the 2019 AGM:

- (i) a separate resolution was proposed and dealt with by poll vote in respect of each separate issue, including the re-election of Directors;
- (ii) the Chairmen of the Board and the Audit Committee, a member of the Remuneration Committee, and the external auditor of the Company attended to answer questions of the shareholders; and
- (iii) Computershare Hong Kong Investor Services Limited, the Company's branch registrar and transfer office (the "Hong Kong Branch Registrar"), was engaged as scrutineer for the vote-taking.

At the 2020 AGM, the Chairman of the meeting will demand a poll on all the resolutions in accordance with the requirements of the Listing Rules. The poll results will be posted on the websites of the Stock Exchange and the Company on the same day of the 2020 AGM.

The Board has adopted a shareholders communication policy which will be subject to periodic review to ensure its effectiveness. The policy is published on the website of the Company.

## Shareholders' Rights and Investor Relations

Shareholders of the Company may exercise the following rights in accordance with the procedures set out below. Such procedures are also published on the website of the Company.

### 1. Convening a special general meeting ("SGM")

Shareholders holding not less than one-tenth of the paid-up capital of the Company can deposit a written request to convene a SGM at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, for the attention of the Company Secretary.

The written request must state the purposes of the meeting, signed by the shareholders concerned and may consist of several documents in like form each signed by one or more of those shareholders.

The request will be verified with the Hong Kong Branch Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM, the shareholders concerned, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but the SGM so convened shall not be held after the expiration of three months from the said date.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholders concerned at a SGM varies according to the nature of the proposal, as follows:

- (i) 14 days' notice\* or 10 clear business days' notice in writing, whichever is the longer, if the proposal constitutes an ordinary resolution of the Company; or
- (ii) 21 days' notice\* or 10 clear business days' notice in writing, whichever is the longer, if the proposal constitutes a special resolution of the Company.

\* the period of notice shall be exclusive of the day on which it is served or deemed to be served and inclusive of the day on which the meeting is to be held.

### 2. Putting forward proposals at general meetings

The number of shareholders required to move a resolution at general meetings by written request shall be:

- (i) either any shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or
- (ii) not less than 100 shareholders.

The written request must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at that meeting and signed by all the shareholders concerned and may consist of two or more copies which between them contain the signatures of all the shareholders concerned.

## Corporate Governance Report

The written request must be deposited at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, for the attention of the Company Secretary not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution, and not less than one week before the general meeting in the case of any other requisition.

The request will be verified with the Hong Kong Branch Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the request has been verified as not in order or the shareholders concerned have failed to deposit reasonably sufficient money to meet the Company's expenses for the said purposes, the shareholders concerned will be advised of this outcome and accordingly, the proposed resolution or business will not be included in the agenda for the general meeting.

### 3. Procedures to propose for election of Directors

In accordance with Bye-Law 90 of the Company, a shareholder may propose a person for election as a Director by lodging at the registered office of the Company or the Hong Kong Branch Registrar or the head office of the Company, a notice in writing signed by such shareholder (other than the person to be proposed), and also a notice in writing signed by the person to be proposed of his willingness to be elected. Such notice(s) must state the full name of the person proposed for election as a Director and include such person's biographical details as required by Rule 13.51(2) of the Listing Rules. The period for lodgement of such notices shall commence on (and include) the day after the date of despatch of the notice convening the general meeting appointed to consider such proposal and end on (and exclude) the date that is seven days before the date of such general meeting. Upon receipt of such notices, the Board will consider the suitability of the said person as a Director and will make recommendation to the shareholders for their consideration.

### 4. Dividend policy

The Board has adopted a dividend policy with an aim to set out the principle and factors to be considered when the Board declaring a dividend so as to allow the shareholders to participate in the

Company's earnings whilst preserve the Company's liquidity for business development. The Company pursues a profit-based dividend policy. Pursuant to the policy, The Board has discretion, subject to Shareholders' approval where applicable, on whether to pay a dividend. Factors to be considered by the Board includes financial performance and results of operations, liquidity position and capital requirements, shareholders' interests, current and future operations, as well as dividends received from the Company's subsidiaries and associates, and any other factors that the Board may from time to time deem relevant.

Subject to the Bermuda Companies Act, the Company's Bye-Laws and other applicable laws and regulations, the Company shall consider declaring dividends on a half-yearly basis from the Company's distributable profits for any particular financial year. In addition to the half-yearly dividends, the Company could also consider declaring special dividends from time to time.

The Board also has discretion on the form of payment, such as in cash or in scrip, and the payable date of dividends, subject to, inter alia, Bermuda Companies Act, the Company's Bye-Laws, other applicable laws and regulations and, where applicable, Shareholders' approval.

### 5. Sending enquiries to the Board

The Company values communication with shareholders and investors. Enquiries and suggestions to the Board are welcomed by addressing them to the Company Secretary:

- (i) by mail to the Company's head office at 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong;
- (ii) by telephone at (852) 2279-3888;
- (iii) by fax at (852) 2423-5576; or
- (iv) by e-mail to [cosec@tristatewww.com](mailto:cosec@tristatewww.com).

### 2020 Annual General Meeting

The 2020 AGM will be held at Room 5A, 5th Floor, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on Monday, 8 June 2020 at 10:00 a.m. The notice of the 2020 AGM will be sent to all shareholders separately. The Chairmen of the Board, the Audit Committee and the Remuneration Committee or their delegates, as well as the external auditor of the Company will attend the 2020 AGM to answer questions from the shareholders.

### The Important Dates to Shareholders

The important dates to shareholders in year 2020 are as follows:

Book close date for determining eligibility to attend and vote at the 2020 AGM:	Tuesday, 2 June 2020 to Monday, 8 June 2020, both days inclusive
2020 AGM:	Monday, 8 June 2020

# Environmental, Social and Governance Report

## 1. Message from Chairman

Over the years, the Group incorporates the core value of the Environmental, Social and Governance (“ESG”) initiatives into our business practice. We are committed to pursuing sustainable development in environmental protection and social responsibility whilst delivering quality products and services to our customers.

We aspire to become the leading responsible garment manufacturer and brands business operator. Our goal is to strive for responsible production along the value chain, by achieving more than what has been required by the laws and regulations, while facilitate the creation of a sustainable apparel industry that is good for people, communities and all our stakeholders.

Through the execution and expansion of our ESG initiatives, the Group endeavours to grow and develop its business capabilities for the sustainable growth in the near and long-term future.

## 2. About this Report

### 2.1 Overview

This is the ESG report of Tristate Holdings Limited (the “Company”) and its subsidiaries (together, “Tristate” or the “Group”) for the year ended 31 December 2019.

### 2.2 About Our Business

Founded in 1937, Tristate is a globally recognised manufacturer of premium fashion apparels famous for its unrivalled ability to integrate cutting-edge technologies into the production of innovative fashions. As a vertically integrated garment manufacturer, the principal business activities of the Group are branded product distribution and garment manufacturing for global customers, with major markets spanning across Europe, North America and Asia.

### 2.3 Scope of this Report

This report covers the period from 1 January 2019 to 31 December 2019, aligning with the Group’s annual report. The main scope of this report covers the Group’s manufacturing operations as listed in the table below. Same as last year, this ESG report covers our three factories in China and two factories in Thailand.

In this year’s report, we have made the same disclosure on environmental KPIs as last year to reflect our performance for comparison. For the five reported environmental KPIs, they cover all of our five factories with the exception of carbon emissions, which covers only Panyu, China (Factory No.1).

#### Factory details:

Location of Factory	Name of the Entities
Hefei, China	Hefei Tristate Garment Manufacturing Company Limited
Panyu, China (Factory No.1)	All Asia Industries Co., Ltd.
Panyu, China (Factory No.2)	Guangzhou Tristate Industrial Co., Ltd.
Thailand (Factory No.1)	Hua Thai Manufacturing Public Company Limited
Thailand (Factory No.2)	Hua Thai Manufacturing Public Company Limited

### 2.4 Reporting Reference

This ESG report has been prepared in accordance with the HKEX Environmental, Social and Governance Reporting Guide (“ESG Guide”). For easy reference, a “HKEX ESG Content Index” that maps the information contained in the report to this ESG Guide is provided in Appendix I and the disclosed “Material Environmental KPIs” are summarised in Appendix II.



# Environmental, Social and Governance Report

## 3. Our Value and Mission

### 3.1 Our Vision

Our core principle is to deliver the best products and quality services to our customers in an ethical and responsible manner. Tristate is committed to creating a sustainable and green environment through the continuous reduction of carbon emissions and waste as well as the conservation of energy. It is also the industry's goal to allow people who enjoy fashion to dress sustainably.

Acting as the third-party manufacturer for a number of internationally renowned apparel brands, we are destined to contribute to sustainability development along the value chain of our industry. Although our influence may not be as far-reaching compared with our clients, we as a listed company, still strongly believe that corporations act responsibly to help drive change, making their business economically, socially and environmentally sustainable.

Our vision, on top of our commitment as a corporate citizen, is to strive for the creation of a truly sustainable apparel industry that is good for people, communities and the planet. We are also strong believers in corporate citizenship. In running our business, we adhere to ethical behaviours by creating a balance between the needs of the shareholder and the community in unison with the environment in the surrounding area.

### Corporate Citizenship

Businesses committed to corporate citizenship demonstrate a strong mindset and firm action in meeting their legal, ethical and economic responsibilities, as established by stakeholders. The ultimate goal is to produce higher standards of living and quality of life for the surrounding communities, whilst beneficial to all stakeholders.

We have developed a clear vision and mission for the Group's sustainability development. We are active in developing policies and activities that exceed basic compliance regarding relevant laws, and are active in promoting the involvement of our employees and managers.

To advance progressively going forward, we are committed to continuously extending the scope of the engagement with our stakeholders to better understand their needs and expectations. To improve transparency regarding progress of our community involvement, our achievements are being made available via public reporting. Ultimately, we are encouraging senior management to integrate corporate citizenship considerations into their respective business strategies and the Group's daily operation.

### 3.2 Our Mission

Through extensive engagements with our stakeholders and reflecting on our impact along the value chain, we have summarised three sustainability missions to work with our stakeholders that progressively drive us closer to fulfilling our vision.

#### Facilitating Responsible Production Along the Value Chain

In order to create quality products for customers to wear, resources consumption and emissions are inevitable along the value chain. As a responsible business, it is our objective to reduce such adverse impact of our production facilities on the environment.

Most of our clients are international apparel brands, and stakeholders around the globe have high expectations regarding the sustainability performance of both the brand itself and its supply chain. We, as part of the supply chain, play an important role in helping these large-scale international brands achieve their sustainability goals. Tristate – being a key third-party supplier to these entities – is therefore subject to regular client audits and site visits. Working with our customers, we ensure our compliance with relevant local environmental standards and promote improvement in resource efficiency, and contribute to the sustainable development of the fashion industry.

#### Promoting Equality and Fairness

As a garment manufacturer with production facilities in different parts of the world and thousands of employees employed, the impact we have on the community can never be underestimated, particularly in light of our commitment to corporate citizenship and responsible business practices.

In promoting equality and fairness, we strive to provide stable employment with fair compensation that could help lift people from potential poverty, improve living/working conditions in our production facilities by providing a safe working environment, free of child and forced labour, and conduct our business in an ethical and honest manner.

#### Promising Quality and Safe Products

Being a trusted third-party manufacturer for some of the world's most famous high-end fashion brands, we take pride in the products we make, and are committed to providing end users safe apparels of the highest quality.

For customers, the lifecycle of an apparel item starts from the day of purchase and eventually ends at the disposal. By improving the quality and craftsmanship of the products we produce, Tristate seeks to extend garment life span and thus, reduce waste at the end of the value chain.

# Environmental, Social and Governance Report

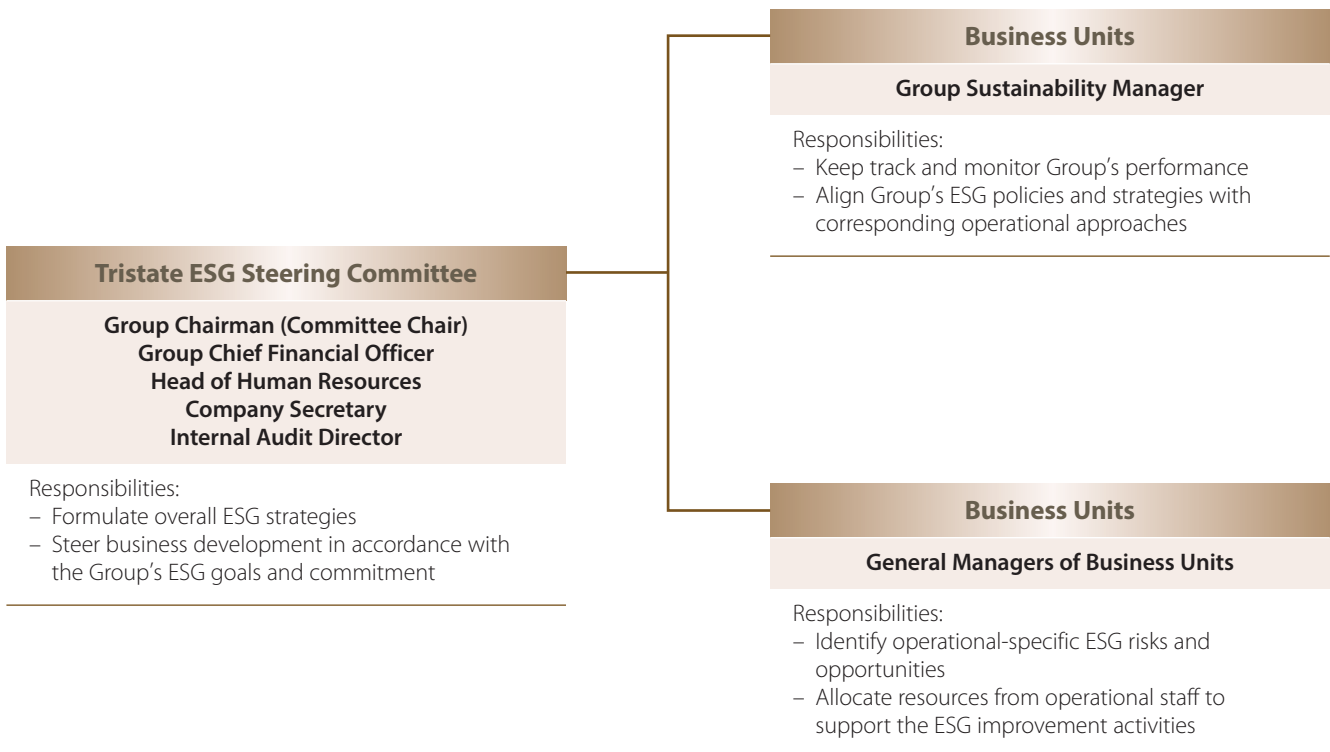


### 3.3 Our ESG Structure

We established an ESG Steering Committee in 2016 to review and monitor the Group’s ESG policies and practices to ensure compliance with the relevant legal and regulatory requirements, monitor and respond to emerging ESG issues and potential associated risks, make recommendations to the Board where appropriate to improve the Group’s ESG performance. With the support of our management team, the Board is responsible for evaluating and determining the Group’s ESG-related risks, and ensuring appropriate and effective ESG risk management and internal control systems are in place.

A systematic internal governance structure, led by the ESG Steering Committee, effectively executes our ESG strategies and approaches across the Group. The structure comprises the Tristate ESG Steering Committee, Group Sustainability Manager, General Manager of the Business Units, and the corresponding operational staff.

Our ESG structure and its responsibilities are listed below:



# Environmental, Social and Governance Report

## 4. Stakeholder Engagement and Materiality Assessment

### 4.1 Stakeholder Engagement

In preparing this report, we continued to adopt our latest materiality assessments and surveys conducted in 2018 with our stakeholders including our major customers. Through interviews and surveys, we have gained a better understanding of their expectations on Tristate and how we can improve.

In the coming years, we will continue to review our stakeholder engagement practice and improve by expanding our stakeholder engagement practice to further include different stakeholders, so as to gain a more holistic view on topics material to the Group's ESG performance and to strive for continuous improvement.

### 4.2 Materiality Assessment

Views and opinions collected during the stakeholder engagement process have been assessed and some of the most material ESG issues and their relevance to the business operations are listed below in descending order categorised by environmental and social aspects.

Aspects	Material Issues	Relevance to the Business
<b>Environmental</b>	Use of Electricity	Electricity use is essential to our business operations, from factories to offices to dormitories, from machine running to air-conditioning to lighting, etc.
	Use of Water	Given the nature of our manufacturing process, laundry plant accounts for the main source of water consumption; other uses include domestic use from our production facilities and the dormitories.
	Hazardous Waste	Given the nature of our manufacturing business, we do not generate significant amount of hazardous waste. Still, a limited amount of cleaning reagents are needed for our production.
	Greenhouse Gas Emissions (GHG)	The use of energy in our business operations, which includes purchased electricity and fuel, is the main source of greenhouse gas emissions of the Group.
	Use of Packaging Materials	The decision on what packaging materials should be used is usually up to our clients, but we strive to reduce packaging material wastage within our control.
<b>Social</b>	Labour Standards	Forced labour and child labour are regarded as key issues and they are completely prohibited by laws and in our Group's operation.
	Health and Safety	Occupational safety is another key issue to the manufacturing business. We are committed to providing our employees with a healthy and safe working environment.
	Anti-corruption	Integrity is a core value of the Group. We believe that this is the cornerstone of business development.
	Employee Benefits	A competitive compensation package is necessary to attract and retain talent. Our people are the foundation of our success.
	Product Safety	Product safety is essential for garment manufacturing. We adhere to the stringent requirements of our clients and ensure our products are safe to consumers.

On top of the three environmental KPI disclosures of Use of Electricity, Use of Water and Hazardous Waste disclosed from 2017 ESG Report, we have included two material environmental aspects of "Greenhouse Gas Emissions" and "Use of Packaging Materials" since last year. In the future, we will continue to update and monitor our KPI disclosure to reflect any change in our material aspects and regulatory requirements.

# Environmental, Social and Governance Report

## 5. Facilitating Responsible Production Along the Value Chain

### 5.1 Our Commitment

Understanding many challenges our earth is facing nowadays and the pressing needs of the industry on sustainability, we try to contribute our share of responsibility along the value chain. Not only do we ensure compliance with rules and regulations regarding Resources Efficiency and Emissions Controls as required, we also endeavour to look for possible improvement initiatives that would exceed the requirements, where practical and economically viable.

In 2019, we keep our scope of environmental KPIs disclosure in line with year 2018 to our materiality assessment. We shall continue to enhance our reporting practice in the future in light of any regulatory changes or industry trends. From the year of 2018, we have included the electricity and water consumption intensities of our five factories. The intensity figures are normalised by the annual revenue of the five factories.

With the various on-going energy and water efficiency initiatives taken place, we aim at continuous efficiency enhancement in our utility consumptions. Details of measures adopted have been described in the following sections.

### 5.2 Resources Efficiency

While we are subject to the already stringent environmental requirements of our clients, we still endeavour to outperform by implementing various resource conservation measures and initiatives to promote efficient consumption of energy, water and other materials along the production chain. For example, we successfully obtained LEED Silver Certification for our Hefei Factory in 2009, which demonstrated our determination and effort to achieve environmental excellence in our production facility.

#### 5.2.1 Use of Energy

Electricity is the Group's main source of energy consumption, used in factory operations, dormitories and offices. Other forms of energy use in our factories include natural gas for boilers and diesel for generators, etc.

#### Use of Electricity (kWh)

Production Facility	2018	2019
Hefei, China	3,040,550	<b>2,882,700</b>
Panyu, China (Factory No.1)	3,657,960	<b>3,763,443</b>
Panyu, China (Factory No.2)	1,118,860	<b>1,183,720</b>
Thailand (Factory No.1)	3,077,000	<b>3,117,000</b>
Thailand (Factory No.2)	1,139,844	<b>1,032,460</b>
<b>Annual Total</b>	12,034,214	<b>11,979,323</b>
<b>Intensity (kWh/USD revenue)</b>	0.0612	<b>0.0598</b>

In the reporting period, we continued to improve the energy efficiency of our factories through three main directions, namely (a) on-going maintenance/upgrade of equipment and facilities, (b) environmental data collection, and monitoring, and (c) awareness enhancement of employees.

#### (a) On-going Maintenance and Upgrade of Equipment and Facilities

##### Improvements/Initiatives in 2019

- improved the insulation of steam pipes and steam traps which reduced the energy loss to the surrounding environment;
- reduced air pressure of air compressors to most energy efficiency level and set up regular inspection of outlets to ensure minimising air pressure leaking;
- continued to gradually replace lighting fixtures with LED, aiming at reducing our energy consumption while maintaining sufficient lighting for our workers with our Thailand factory achieving 100% LED lighting;
- solar panels installation, subsidised by the local government, is in progress and estimated to be ready in first half of 2020 in our Thailand factory, which is expected to cover over 70% of the factory's electricity consumption; and
- suspended the use of one electrical transformer of two sets at our Hefei factory to reduce electricity consumption.

# Environmental, Social and Governance Report

## Highlighted Initiatives Carried Out in Previous Years

- installed an insulation layer on the rooftop of our factory in Panyu and roof greening at several of our factory buildings with full or partial vegetation cover, which reduced the air-conditioning demand for the upper levels and hence reduced the consumption of energy;
- replaced part of the step-motor powered equipment with server-motor powered models, reducing the idle energy consumption by step-motors and improving occupational safety of our workers;
- upgraded to Variable Speed Drive (VSD) chillers to reduce annual energy consumption while maintaining reliable operation;
- installed solar lighting tubes at the ceiling of our Hefei factory where the flexible tubing harvests natural sunlight from reflective surfaces and transport the light indoor to provide natural daylight for workstations;
- installed water curtains paired with ventilation fans at our factories in Hefei and Panyu for more energy-efficient temperature control; and
- conducted regular inspection of our boilers to ensure full compliance with the regulations and allow timely repair of boilers.

### **(b) Environmental Data Collection and Monitoring**

We have been collecting and monitoring material environmental data as part of our regular practice in all involved units. As an internal control measure, the internal audit team will also perform checking on the data collected to ensure its reliability. This facilitates more effective decision-making regarding potential resource-saving projects, reliable benchmarking of our performance in line with local government requirements to ensure compliance, and meeting clients' ever-increasing expectations on our resources consumption and emissions control.

### **(c) Awareness Enhancement of Employees**

To raise the awareness of our employees, guidance is provided throughout the year regarding energy efficiency. Posters and internal communications are used to promote energy conservation at the workplace and inform employees our latest environmental policies and measures.

To further improve environmental performance of the production facilities, we organise workshops and seminars for factories' management to reflect on the existing work done and way forward.

### **5.2.2 Use of Water**

As our garment manufacturing does not include the process of dyeing and bleaching of fabric, the major water consumption in our operation comes from the water used for finished garment laundry and steam boilers. Besides our manufacturing activities, there are also water consumption arising from the dormitories at our production facilities.

In terms of water management, we seek to reduce our consumption through behavioural changes and hardware maintenance. During the year, we have:

#### Improvements/Initiatives in 2019

- repaired and replaced leaking water inlet and fire service pipes where four water leakages have been identified and subsequently fixed in our Hefei factory with the support from external experts;
- increased onsite wastewater data inspections (including PH/COD/NH4/real time flowmeter) to identify issues more timely;
- replaced water pipe system in our Thailand (Factory No.1), which minimise water leakage of the system of whole factory; and
- more water meters installed in our Thailand factory for a more integrated data management system.

## Highlighted Initiatives Carried Out in Previous Years

- reduced flushing water consumption by retrofitting existing toilets with dual-flush capability and sensor controls;
- replaced conventional water fixtures with newer models with low flow regulators;
- installed water-softening filters for boilers to improve flow rate and efficiency;
- reduced pressure of water pipes in factories to reduce water use and leakages through the burst of pipes;
- ceased to use the leaking underground water system at our Thailand factory and switched to municipal water, which avoided further water leakage from the aged underground water piping; and
- enhanced control of overtime shifts to better utilise the boilers and reduce both water and energy consumption from nightshifts.

## Environmental, Social and Governance Report

Water meters are available for municipal water supply in the China and Thailand facilities and thus water consumption data is being monitored and maintained.

### Use of Water (m<sup>3</sup>)

Production Facility	2018	2019
Hefei, China	132,038	<b>141,473</b>
Panyu, China (Factory No. 1)	43,544	<b>45,500</b>
Panyu, China (Factory No. 2)	34,715	<b>40,892</b>
Thailand (Factory No. 1)	38,547	<b>41,072</b>
Thailand (Factory No. 2)	12,607	<b>12,588</b>
<b>Annual Total</b>	261,451	<b>281,525</b>
<b>Intensity (m<sup>3</sup>/USD revenue)</b>	0.0013	<b>0.0014</b>

### 5.2.3 Use of Packaging Materials

Packaging material is typically subject to client needs and specifications, leaving us with very limited control over it. While we have minimal control over the types of materials used for packaging, we still try to manage the issue by preventing any over-order of packaging materials. For example, we use standard sizes carton box and polybags in our Thailand factory to avoid unused stock size differences.

As we began to report on our packaging materials consumption last year, we continue to focus on the carton and plastic bags used this year, which are the major types of packaging used in our production.

### Use of Packaging Materials (Plastic bags and Carton) (tonnes)

Production Facility	2018	2019
Hefei, China	242.9	<b>240.1</b>
Panyu, China (Factory No. 1)	122.3	<b>201.4</b>
Panyu, China (Factory No. 2)	135.0	<b>248.9</b>
Thailand (Factory No. 1)	87.8	<b>121.1</b>
Thailand (Factory No. 2)	83.6	<b>21.7</b>
<b>Annual Total</b>	671.6	<b>833.2</b>

## 5.3 Emissions Control

Given the nature of our production, we do not produce significant air emissions, hazardous waste or wastewater discharge. We ensure compliance with the relevant regulatory requirements and minimise our emissions where reasonably practicable. Following the requirements of our clients, for example their MRSL (Manufacturing Restricted Substances List), we have developed guidelines to ensure that chemicals listed are not used during our production processes.

### 5.3.1 Greenhouse Gas Emissions

As part of the global trend on sustainability, the increasing needs of our clients' and investors' expectation on sustainability performance, it is important that we take a responsible step to understand our GHG emissions as a corporation.

In the process of garment manufacturing, the major source of GHG emissions is the energy use for production. Over the years, we strived to improve the energy efficiency of our production through various initiatives and hardware improvements, which as a result lowers our GHG emissions as well. For more details on the energy-efficiency improvements, please refer to Section 5.2.1 Use of Energy.

To better understand the carbon emissions profile at our production facilities, from the year of 2018, we have started to evaluate the GHG emissions of our business. We conducted carbon audit at Factory No.1 of Panyu, China for years 2018 and 2019. Through the carbon audit, we assessed the carbon emissions of the factory and explored further reduction opportunities. We are planning to extend the practice to our other factories in coming years, hoping to set the baseline of our carbon emissions with an ultimate aim to set forth planning measures on emissions reductions and efficiency management.

### Greenhouse Gas Emissions Scope 1 (tCO<sub>2</sub>e)

Production Facility	2018	2019
Panyu, China (Factory No. 1)	1,168	<b>1,182</b>

### Greenhouse Gas Emissions Scope 2 (tCO<sub>2</sub>e)

Production Facility	2018	2019
Panyu, China (Factory No. 1)	1,928	<b>1,984</b>

## Environmental, Social and Governance Report

### 5.3.2 Air Emissions

Given the nature of garment manufacturing, we do not have significant air emissions from our production processes. Majority of our air emissions come from the use of boilers for steam production and the use of back-up generator sets at our production facilities.

Since 2012, we have switched to natural gas or LPG in four of our five factories with on-site boilers, which significantly reduced our air emissions compared to the old diesel-boilers. Besides switching the fuel, we also appoint external agencies to perform regular assessment of the air emissions of our boilers and perform timely maintenance when problems are identified.

### 5.3.3 Wastewater Discharge

During our production process, insignificant amount of wastewater pollutant is generated from the laundry of finished products. Complying with local regulations, we properly manage and monitor our wastewater discharge.

While on-site water treatment is not required in our Thailand and Panyu factories, the wastewater produced in our Hefei factory is treated on-site before discharge. Operated by a dedicated team, tertiary wastewater treatment process including sedimentation and biological treatment is adopted to ensure that the effluent complies with relevant discharge standards. During the year, we have updated the online monitoring system which is used to monitor the effluent quality. To the best of our knowledge, no material violation of discharge standards was recorded during the year.

### 5.3.4 Waste Management

#### General Waste

The Group continuously optimises its production plans and procedures to better utilise the raw garment materials and thus reduce generation of waste fabrics. Rags are collected by recyclers periodically; we seek to minimise the disposal of rags as waste.

The '3R' principles – reduce, reuse and recycle – have been widely adopted across the whole Group, and other general waste from our operations is being properly disposed of in line with local requirements and general international standards.

#### Hazardous Waste

Our production process involves mainly the cutting, sewing, finishing and packaging of garments, with no dyeing or bleaching process involved. Also, most of the raw materials are purchased from qualified fabric suppliers designated by clients and hence we do not generate significant hazardous waste in the manufacturing process.

The common hazardous waste we produce, constitutes old light tubes, empty chemical containers and expired chemicals. To reduce the generation of waste light tubes, we have been progressively replacing the lighting system in our factories with LED tubes, which are more durable and energy efficient. For the cleaning reagent, we would try to use any available eco-friendly substitutes, where practical.

We have appointed qualified third-party companies to properly handle and dispose of the limited hazardous waste generated. Relevant disposal amounts were well documented, ensuring that the process complies with the local laws and regulations on hazardous waste disposal.

#### Disposal of Hazardous Waste (in tonnes)

Type of Hazardous Waste	2018	2019
Old Light Tubes	0.95	<b>0.98</b>
Empty Chemical Containers	1.38	<b>1.65</b>
Expired Chemicals	0.90	<b>0.20</b>

### 5.4 The Environment and Natural Resources

The significant environmental issues faced in our business regarding emissions and the use of resources are already disclosed in the above sections.

### 5.5 Regulatory Compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to environmental emissions.

## 6. Promoting Equality and Fairness

As a corporate citizen, we care about the welfare of the community and the people within. Our production facilities provide employment opportunities for the local areas, and help to boost the local economy and sustain its growth. It is our goal to value the contributions from our employees and adopt labour practices aiming to set ourselves as role models. As such, we strictly prohibit unethical behaviours and any form of unlawful labour. To the local community, we seek to give back where we take. Community engagement is encouraged to nurture a harmonious development in the local areas.

# Environmental, Social and Governance Report

## 6.1. Employment and Labour Practices

Our people are the most valuable assets to the Group. Through transparent recruitment practice and competitive remuneration packages, we seek to attract and retain high-calibre employees to strengthen the core competency of the Group. In the employment practices, we adhere to all relevant local laws and regulations including Hong Kong's Employment Ordinance and the Labour Law of the People's Republic of China, etc.

### 6.1.1 Fair Employment

#### Recruitment and Promotion

Tristate is an equal opportunity employer and treats employees fairly and justly by adopting an even-handed approach. We embrace diversity and provide equal employment opportunities to all employees and job applicants, irrespective of their gender, race, sexual orientation, age, religion, marital status, pregnancy and disability. Staff appointments and promotions are determined by relevant merits and performance, and we prohibit any discriminatory behaviours in all human resources activities including recruitment, training, transfer, promotion and termination.

#### Benefits Entitlement

To motivate our employees, we strive to provide rewarding remuneration and welfare package to them. Our employee remuneration is on par with market level and through annual appraisal, adjustments are made regularly to reward high-performing employees. Provision of mandatory provident fund, pension, paid leaves, medical insurance and a range of other welfare benefits are also guaranteed in compliance with relevant labour laws and regulations.

#### Encouraging Communication

Employees' opinion is a great driver of improvement. Therefore, we encourage open communication between management and employees. Employees may confer local issues with management via various channels or discuss with their immediate supervisor or senior management team if necessary.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding employment and labour practices.

### 6.1.2 Health and Safety

We place high importance in the health and safety of our employees. As a garment manufacturer, our production processes are mostly indoor involving tasks like cutting, sewing, finishing and packaging of garments. While the nature of our work is subject to low occupational safety risk, we ensure compliance with all relevant occupational health and safety legislation.

To provide our employees with a comfortable working environment, our work areas are adequately lit with proper ventilation, along with basic necessities like potable water, sanitary facilities, fire protection device and first-aid boxes.

To ensure the safety of our working environment, regular evaluations of production and living areas are performed to identify and clear any potential safety hazards with appropriate control measures. Procedures to minimise workplace safety hazards include periodic machinery safety check, physical and chemical hazard identification and control, facility hygiene control, emergency preparedness for accidents and incidents, safety trainings for employees, and tracking of health and safety statistics.

During the reporting period, no severe work-related injury was noted and we were not aware of any material non-compliance with laws and regulations regarding occupational health and safety.

## 6.2 Development and Training

The capability of employees is a key factor to the Group's success. Through various orientation sessions and on-the-job trainings, we equip our employees with latest industry knowledge and build their expertise to enhance the market-competitiveness of the Group. During the reporting period, training provided cover topics including industry knowledge, technology and product knowledge, industry quality standards and work safety standards.

## 6.3 Labour Standards

The Group abides by relevant labour laws and regulations to prohibit the employment of child or forced labour in all of its operations. During the recruitment process, identification documents of applicants are checked to ensure no underage labour is hired.

We also respect the basic rights of our employees and prohibits any unfair treatment of our employees. To protect their rights, a Grievance Policy is in place to provide them with a formal mechanism to voice their concerns to higher level management.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding labour standards.



# Environmental, Social and Governance Report

## 6.4 Anti-corruption

The Group adheres to the highest ethical standards and upholds the elements of integrity and accountability in its daily operation. We abide by applicable laws and regulations including the Prevention of Bribery Ordinance in Hong Kong and have zero tolerance against any corruption or fraudulent behaviour within our business.

We expect our employees at all levels to behave with integrity, impartiality and honesty. Through our Staff Handbook, we communicate to employees our stance towards bribery and provide guidelines to them regarding the acceptance of gifts, conflict of interest and other misconduct. Anti-corruption guidelines are also provided to strengthen their knowledge in relation to the prevention of bribery, helping them to identify any possible immoral acts or violations.

To encourage employees to raise their concerns about possible misconduct, a Whistle-blowing Policy with clearly documented procedures is in place to provide employees with a confidential escalation channel. Every report received will be thoroughly assessed by the Internal Audit Department followed by internal investigation, referral to Audit Committee or even relevant regulatory bodies if necessary. All information received shall be kept confidential and the whistle-blower shall be protected from any harassment or retaliation.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding anti-corruption.

## 6.5 Community Investment

The Group understands that the development of the community where we operate is crucial to the sustainable growth of our business. We therefore strive to contribute to society and help those around us flourish. As part of our community effort, we invite our employees to join volunteer activities from time to time. As a recognition of our volunteering work and donations, we have been awarded the title of "Caring Company" since the year of 2015.

## 7. Promising Quality and Safe Products

Delivering quality and safe products continuously represents the reputation of our Group. We take pride in our production management flow and are committed to providing end users with safe and high quality garments.

We try to manage this by implementing strict supply chain management and product responsibility policies.

### 7.1 Supply Chain Management

#### 7.1.1 Supplier Selection Policy

With most of our customers being international premium apparel brands, there are high expectations on the supply chain of our business. We assess and evaluate not only our suppliers' capability, quality, compliance status, pricing and certifications, but also suppliers' ESG performance with extra attention. In particular, we pay attention to their regulatory compliance on environment, employment and labour as well as health and safety. Only those suppliers who comply with our requirements in product safety and quality, business reputation and other criteria mentioned above are eligible to be appointed by the Group.

Suppliers are also encouraged to include environmental considerations in their production. We expect fair and equal employment practices from our suppliers and have zero tolerance regarding any form of child or forced labour and discrimination.

#### 7.1.2 Prohibiting Unethical Behaviour

The Group policy prohibits unethical behaviours that could interfere, or appear to interfere, with employees' abilities to make free and independent decisions regarding purchase and procurement. Any supplier violating this practice risks immediate loss of all existing and future business with us, while employees will be subjected to appropriate disciplinary action including termination of employment.

### 7.2 Product Responsibility

#### 7.2.1 Product Safety and Quality

We give top priority to the product quality and safety offered to our customers. We continually strive to meet our customers' expectations on products and services with high satisfaction.

To ensure consistent and quality products from the outset, we source most of our raw material from suppliers designated by our clients. The Group, together with our clients and suppliers, has procedures in place safeguarding product quality and safety. Quality control systems have been set up and implemented in our factories to ensure clients' expectations are met. Responding to the increasing stringent environmental requirements on garment manufacturing, our clients, mostly international apparel brands, conduct factory visits and audits regularly to monitor our compliance with ethical and technical standards.

#### 7.2.2 Customer Feedback Channels

We stay connected with customers via various channels such as telephone, email, questionnaire surveys and face-to-face meetings to obtain their feedback and suggestions. We welcome their opinions which would be studied to identify areas of potential improvement.

During the reporting period, we were not aware of any material non-compliance with laws and regulations regarding product responsibility.

## Environmental, Social and Governance Report

### Appendix I: HKEX ESG Content Index

	Aspects	Section	Remarks
<b>A</b>	<b>Environmental</b>		
<b>A1</b>	<b>Emissions</b>	5.3	–
A1.1	The types of emissions and respective emissions data.	5.3.2	Given the nature of garment manufacturing, we do not have significant air emissions from our production processes.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.1	–
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.4	–
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3.4	Non-hazardous waste is not considered as material to the Group's operation. We ensure compliance with local requirements on waste disposal and will review relevant data disclosure in the future.
A1.5	Description of measures to mitigate emissions and result achieved.	5.3	–
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	5.3.4	–
<b>A2</b>	<b>Use of Resources</b>	5.2	–
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	5.2.1	–
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	5.2.2	–
A2.3	Description of energy use efficiency initiatives and result achieved.	5.2.1	–
A2.4	Description of whether any issue exists in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.2.2	–
A2.5	Total packaging materials used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	5.2.3	–
<b>A3</b>	<b>The Environment and Natural Resources</b>	5.4	Environmental issues faced in our business are discussed in sections 5.2 and 5.3.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	5.4	–

## Environmental, Social and Governance Report

### Appendix I: HKEX ESG Content Index (Continued)

	Aspects	Section	Remarks
<b>B</b>	<b>Social</b>		
B1	Employment	6.1.1	–
B2	Health and Safety	6.1.2	–
B3	Development and Training	6.2	–
B4	Labour Standards	6.3	–
B5	Supply Chain Management	7.1	–
B6	Product Responsibility	7.2	–
B7	Anti-corruption	6.4	–
B8	Community Investment	6.5	–

### Appendix II: Material Environmental KPIs

	Unit of Measurement	2018 Annual Total	2019 Annual Total
<b>Use of Electricity</b>	<b>kWh</b>	12,034,214	<b>11,979,323</b>
<b>Electricity Intensity</b>	<b>kWh/USD revenue</b>	0.0612	<b>0.0598</b>
<b>Use of Water</b>	<b>m<sup>3</sup></b>	261,451	<b>281,525</b>
<b>Water Intensity</b>	<b>m<sup>3</sup>/USD revenue</b>	0.0013	<b>0.0014</b>
<b>Disposal of Hazardous Waste</b>			
Old Light Tubes	<b>tonnes</b>	0.95	<b>0.98</b>
Empty Chemical Containers		1.38	<b>1.65</b>
Expired Chemicals		0.90	<b>0.20</b>
<b>Greenhouse Gas Emissions at Panyu, China (Factory No.1)</b>	<b>tonnes CO<sub>2</sub>e</b>	3,096	<b>3,166</b>
<b>Use of Packaging Materials</b>	<b>tonnes</b>	671.6	<b>833.2</b>

## Directors' and Senior Management's Profiles

### Directors

#### Executive Director

**Mr. WANG Kin Chung, Peter**, *BSc, MBA*, aged 66, became the Company's President and Chief Executive Officer in 1999 and was redesignated as the Chairman and Chief Executive Officer of the Company since 2001. He is also the Chairman of the Share Option Committee of the Company and a director of certain subsidiaries of the Company. Mr. Wang has over 35 years of experience in the garment industry and is responsible for the overall strategic planning and business development of the Company. Mr. Wang obtained a BSc degree in Industrial Engineering from Purdue University in Indiana, USA and an MBA degree from Boston University, USA. He is a non-executive director and a member of the audit committee of Johnson Electric Holdings Limited and the chairman and managing director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand).

Mr. Wang won the Young Industrialist Award of Hong Kong in 1998. In 2005, he received the Outstanding Industrial Engineer Award from the School of Industrial Engineering of Purdue University. He was a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference and committee vice chairman of The Anhui Fraternity Association (Hong Kong) Limited. Mr. Wang is the honorary chairman of the Hong Kong Garment Manufacturers Association, a general committee member of the Textile Council of Hong Kong Limited and a director of The Federation of Hong Kong Garment Manufacturers. He is also a member of Council of Institute of New Structural Economics at Peking University. He is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company. Mr. Wang is a director of New Perfect Global Limited and Silver Tree Holdings Inc. respectively, which are the substantial shareholders of the Company as disclosed in the "Substantial Shareholders" section of the Report of the Directors.

#### Non-Executive Directors

**Ms. WANG KOO Yik Chun**, aged 102, became Co-chairlady and Honorary Co-chairlady in 1999 and 2001 respectively and was then redesignated as the Honorary Chairlady of the Company since 2002. She is the founder of Hwa Fuh Manufacturing Company (Hong Kong) Limited and its subsidiaries. She is also the honorary chairman and a non-executive director of Johnson Electric Holdings Limited, a former director of Hua Thai Manufacturing Public Company Limited (formerly listed on The Stock Exchange of Thailand), and a director of certain subsidiaries of the Company. Ms. Koo is the mother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, Ms. MAK WANG Wing Yee, Winnie and Dr. WANG Shui Chung, Patrick, Directors of the Company.

**Ms. MAK WANG Wing Yee, Winnie**, *BSc*, aged 73, obtained her BSc degree from Ohio University, USA and became a Non-Executive Director of the Company in April 1999. She is also a member of the Audit Committee, the Remuneration Committee and the Share Option Committee of the Company. Ms. Wang is a director of two subsidiaries of the Company. She is also the vice chairman of Johnson Electric Holdings Limited. Ms. Wang is a daughter of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a sister of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Dr. WANG Shui Chung, Patrick, a Director of the Company.

**Dr. WANG Shui Chung, Patrick**, *JP, BSc, MSc*, aged 69, obtained his BSc and MSc degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He became a Non-Executive Director of the Company in April 1999 and is a director of a subsidiary of the Company. Dr. Wang is the chairman and chief executive of Johnson Electric Holdings Limited, and an independent non-executive director of VTech Holdings Limited. He is also a member of the Hong Kong Sanatorium & Hospital's Clinical Governance Committee. Dr. Wang previously served as a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, and the chairman and a director of the Hong Kong Applied Science and Technology Research Institute Company Limited. Dr. Wang is a son of Ms. WANG KOO Yik Chun, the Honorary Chairlady of the Company, and a brother of Mr. WANG Kin Chung, Peter, the Chairman and Chief Executive Officer of the Company, and Ms. MAK WANG Wing Yee, Winnie, a Director of the Company.

#### Independent Non-Executive Directors

**Mr. LO Kai Yiu, Anthony**, aged 71, joined the Company in June 1998 as an Independent Non-Executive Director. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants. In addition to over 8 years of professional accounting experience, he has over 35 years of experience in investment banking and other financial services. Mr. Lo was an independent non-executive director of The Taiwan Fund, Inc. He is the chairman of Shanghai Century Capital Limited and serves as an independent non-executive director of a number of listed public companies, including Convenience Retail Asia Limited, Lam Soon (Hong Kong) Limited and Playmates Holdings Limited.

**Mr. James Christopher KRALIK**, aged 54, was appointed as an Independent Non-Executive Director of the Company in April 2002. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Kralik is the managing director of Linden Street Capital Limited, a privately held investment company focused on Greater China-based investment opportunities. He previously served as the chief executive officer of VTech Telecommunications Limited, built and led a Hong Kong-based group of media and entertainment businesses, and was a management consultant with McKinsey & Company, Inc. Mr. Kralik is a graduate of Harvard College and the Harvard Business School.

**Mr. Peter TAN**, aged 64, was appointed as an Independent Non-Executive Director and a member of the Remuneration Committee of the Company in January 2011. He is an independent non-executive director of The Sincere Company, Limited. Mr. Tan is currently the chief executive officer of TLC Capital Management Pte Ltd., an investment company and a director of Titan Dining Holdings Pte. Ltd., a non-listed company. Prior to that, he was the chief executive officer of an investment company namely Stone Canyon Pte Ltd; and the chief executive officer of Knowledge Universe Pte Ltd, a leading global private education organisation with a network of more than 3,000 locations worldwide. Before joining Knowledge Universe in 2013, Mr. Tan has more than 17 years' experience in the fast food industry. Mr. Tan was the executive vice president and the chief executive officer of Asia Pacific division of Burger King Corporation up to 2012. Before joining Burger King Corporation in 2005, Mr. Tan had served McDonald's Corporation for 10 years and was the senior vice president and the president of its Greater China division, responsible for strategic growth of the business and management of all key functions in the region. Prior to that, Mr. Tan was the vice president of Citibank Singapore, Private Banking Group. He holds a BA degree in Accounting and Finance from the Washington State University, an MBA degree from the Kellogg School of Management at Northwestern University and was the chairman of the Kellogg Alumni Council (Asia).

## Directors' and Senior Management's Profiles

### Senior Management

**Mr. Joshua Bruce PERLMAN**, aged 50, joined the Group in 2003 and is the Managing Director of the Retail and Wholesale division of the Group's wholly-owned subsidiary, 338 Fashion Co. Limited. Mr. Perlman is also the President of our Men's Sportswear Brand – C.P. Company in North America. He has over 25 years of experience in China working with renowned consumer lifestyle brands. A graduate of both Tulane University and the Johns Hopkins University Center for Chinese and American Studies in Nanjing, Mr. Perlman is a native of New York City, USA, and is fluent in Mandarin, Chinese.

**Ms. SUN Lin, Sophie**, aged 44, President of China Retail Business including Cissonne and C.P. Company, joined the Group in 2006. Ms. Sun was instrumental in the creation of Cissonne in 2014, the first ladies' premium brand of the Group. She is also the Director of Product Development and Central Sourcing of the Group. Ms. Sun holds a Master Degree in Business Administration from Fudan University, Shanghai.

**Mr. Lorenzo OSTI**, aged 46, joined the Group in 2015. He is the President of C.P. Company, a sportswear brand of the Group. Mr. Osti is the son of the brand founder, Mr. Massimo Osti. He has over 20 years of experience in marketing and brand management. Mr. Osti graduated with honors at Bologna Alma Mater Studiorum, with a thesis in Mass Communication.

**Ms. MA Jingyan, Jane**, aged 47, Managing Director of the Contract Manufacturing Business Unit, joined the Group in 2001. Ms. Ma has over 18 years of experience in the garment industry primarily on the marketing, sales and product development side for both UK and USA markets. She holds a Master Degree in Business Administration from Fordham University, New York.

**Ms. ZHANG Xiaofang, Phyllis**, aged 46, Managing Director of the third party fulfillment business. She is also responsible for the supply chain management of all internal brands. Ms. Zhang joined the Group in 2002 and has over 18 years of management experience in the garment industry. She holds a Master Degree in Business Administration from Peking University.

**Ms. CHAN Man Ying, Vivian**, aged 44, Chief Financial Officer, joined the Group in February 2019. Ms. Chan has more than 20 years of experience in finance and accounting. Prior to joining the Group, she was the Chief Financial Officer of a company listed in Hong Kong. In addition, she possesses professional accounting and auditing experience with Deloitte Touche Tohmatsu. Ms. Chan holds a Bachelor Degree of Business Administration in Accounting from Hong Kong University of Science & Technology. She is a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

## Report of the Directors

The Board of Directors (the “Board”) of Tristate Holdings Limited (the “Company”) presents its report together with the audited financial statements of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2019.

### Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are (i) garment manufacturing, and (ii) brands business.

An analysis of the Group’s revenue and results for the year by segment is set out in Note 4 to the consolidated financial statements.

### Results and Appropriations

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 48.

No interim dividend was paid for the six months ended 30 June 2019 (2018: Nil).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

### Business Review

The business review of the Group for the year ended 31 December 2019 is set out in the section headed “Management Discussion and Analysis” on pages 6 to 13 of this Annual Report.

### Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2019 is set out on page 3.

### Share Options

A new share option scheme (the “2016 Share Option Scheme”) was approved and adopted by the shareholders of the Company at the AGM of the Company held on 6 June 2016 (the “2016 AGM”) for granting of share options to eligible persons to subscribe for shares of the Company.

In relation to the share option scheme adopted by the Company on 2 April 2007 (the “2007 Share Option Scheme”), the termination of which was approved at the 2016 AGM. Upon termination, no further share options can be offered under the 2007 Share Option Scheme but all outstanding share options granted thereunder shall continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme.

### Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

### Subsidiaries

Particulars of the Company’s principal subsidiaries as at 31 December 2019 are set out in Note 43 to the consolidated financial statements.

### Associate

Particulars of the Group’s interests in an associate are set out in Note 18 to the consolidated financial statements.

### Share Capital

Details of the share capital of the Company are set out in Note 31 to the consolidated financial statements.

### Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 32 and 38(b) to the consolidated financial statements respectively.

### Distributable Reserves

As at 31 December 2019, the reserves of the Company amounted to HK\$447,805,000 (2018: HK\$447,351,000) and retained earnings amounted to HK\$493,471,000 (2018: HK\$463,732,000); of which HK\$924,491,000 (2018: HK\$894,752,000) were available for distribution to equity shareholders of the Company as calculated in accordance with the Bermuda Companies Act 1981.

## Report of the Directors

### A. The 2007 Share Option Scheme

The principal terms of the 2007 Share Option Scheme are summarised below:

Purpose	:	To attract and motivate high quality employees and officers of the members of the Group, to provide the participants who have been granted options under the 2007 Share Option Scheme to subscribe for shares of the Company with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving certain performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The employees and officers of any member (from time to time) of the Group including, without limitation, directors, senior vice presidents, factory general managers, vice presidents and other full-time employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	<p>The maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2007 Share Option Scheme.</p> <p>The termination of the 2007 Share Option Scheme was approved at the 2016 AGM. Upon termination, no further options can be offered under the 2007 Share Option Scheme.</p>
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than 10 years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2007 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK\$1.00 (or its equivalent), to be paid within 10 business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares which are the subject of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be determined by the Board at the time the option is offered to the participant.
Remaining life of the 2007 Share Option Scheme	:	The termination of the 2007 Share Option Scheme was approved at the 2016 AGM. No options may be granted under the 2007 Share Option Scheme upon termination.

## Report of the Directors

Movements in the share options under the 2007 Share Option Scheme during the year ended 31 December 2019 were as follows:

Date of grant	Participant	Number of share options			Exercise price per share	Exercisable period
		At 1 January 2019	Lapsed during the year	At 31 December 2019		
9 June 2014	Employees (in aggregate)	106,000	(106,000)	–	HK\$3.10	9 June 2014 – 8 June 2019
		106,000	(106,000)	–	HK\$3.10	9 June 2015 – 8 June 2019
		106,000	(106,000)	–	HK\$3.10	9 June 2016 – 8 June 2019
		106,000	(106,000)	–	HK\$3.10	9 June 2017 – 8 June 2019
8 June 2015	Employees (in aggregate)	135,000	–	<b>135,000</b>	HK\$2.97	8 June 2015 – 7 June 2020
		135,000	–	<b>135,000</b>	HK\$2.97	8 June 2016 – 7 June 2020
		135,000	–	<b>135,000</b>	HK\$2.97	8 June 2017 – 7 June 2020
		135,000	–	<b>135,000</b>	HK\$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees (in aggregate)	141,000	–	<b>141,000</b>	HK\$2.28	9 May 2016 – 8 May 2021
		141,000	–	<b>141,000</b>	HK\$2.28	9 May 2017 – 8 May 2021
		141,000	–	<b>141,000</b>	HK\$2.28	9 May 2018 – 8 May 2021
		141,000	–	<b>141,000</b>	HK\$2.28	9 May 2019 – 8 May 2021
	Total	1,528,000	(424,000)	<b>1,104,000</b>		

Notes:

1. The above options vest in four equal tranches over a period of three years from the relevant date of grant.
2. No options were granted, exercised or cancelled during the year.

Other details of the share options under the 2007 Share Option Scheme are set out in Note 33 to the consolidated financial statements.



## Report of the Directors

### B. The 2016 Share Option Scheme

The principal terms of the 2016 Share Option Scheme are summarised below:

Purpose	:	To provide the participants who have been granted options under the 2016 Share Option Scheme with the opportunity to acquire proprietary interests in the Company, to encourage participants to work towards achieving the relevant performance targets in order to enhance the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and to retain participants who achieve such performance targets.
Participants	:	The directors, officers and employees of any member of the Group as determined by the Board from time to time.
Total number of shares available for issue and the percentage of the issued share capital that it represents as at the date of this report	:	The maximum number of shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 6 June 2016, the date of 2016 AGM approving and adopting the 2016 Share Option Scheme. The total number of shares available for issue under the 2016 Share Option Scheme is 23,712,725 shares, representing 8.73% of the issued share capital of the Company as at the date of this report.
Maximum entitlement of each participant	:	Not exceeding 1% of the shares of the Company in issue in any 12 months period.
Period within which the shares must be taken up under an option	:	The period within which the options must be exercised will be specified by the Board at the time of grant. This period must expire no later than 10 years from the relevant date of grant.
Minimum period for which an option must be held before it can be exercised	:	At the time of grant of the options, the Board may specify any minimum period(s) for which an option must be held before it can be exercised. The 2016 Share Option Scheme does not contain any such minimum period.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	:	HK\$1.00 (or its equivalent), to be paid within 10 business days from the date on which the letter containing the offer is issued to that participant.
Basis of determining the exercise price	:	The subscription price for the shares shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer and shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
Remaining life of the 2016 Share Option Scheme	:	No options may be granted under the 2016 Share Option Scheme on or after the date of the tenth anniversary of the adoption of the 2016 Share Option Scheme.

## Report of the Directors

Movements in the share options under the 2016 Share Option Scheme during the year ended 31 December 2019 were as follows:

Date of grant	Participant	Number of share options			Exercise price per share	Exercisable period
		At 1 January 2019	Granted during the year	At 31 December 2019		
5 June 2017	Employees (in aggregate)	239,000	–	<b>239,000</b>	HK\$1.68	5 June 2017 – 4 June 2022
		239,000	–	<b>239,000</b>	HK\$1.68	5 June 2018 – 4 June 2022
		239,000	–	<b>239,000</b>	HK\$1.68	5 June 2019 – 4 June 2022
		239,000	–	<b>239,000</b>	HK\$1.68	5 June 2020 – 4 June 2022
25 June 2018	Employees (in aggregate)	264,000	–	<b>264,000</b>	HK\$1.75	25 June 2018 – 24 June 2023
		264,000	–	<b>264,000</b>	HK\$1.75	25 June 2019 – 24 June 2023
		264,000	–	<b>264,000</b>	HK\$1.75	25 June 2020 – 24 June 2023
		264,000	–	<b>264,000</b>	HK\$1.75	25 June 2021 – 24 June 2023
3 June 2019 (Notes 2 & 3)	Employees (in aggregate)	–	359,000	<b>359,000</b>	HK\$1.58	3 June 2019 – 2 June 2024
		–	359,000	<b>359,000</b>	HK\$1.58	3 June 2020 – 2 June 2024
		–	359,000	<b>359,000</b>	HK\$1.58	3 June 2021 – 2 June 2024
		–	359,000	<b>359,000</b>	HK\$1.58	3 June 2022 – 2 June 2024
	Total	2,012,000	1,436,000	<b>3,448,000</b>		

Notes:

- The above options vest in four equal tranches over a period of three years from the relevant date of grant.
- The Company received a consideration of HK\$1.00 from each of the grantees for the options granted during the year.
- The closing price of the shares of the Company on 31 May 2019, being the business day immediately before the date on which the options were granted, as quoted on the Stock Exchange, was HK\$1.58.
- No options were exercised, cancelled or lapsed during the year.
- The fair value of the options granted during the year determined using the Trinomial valuation model was HK\$0.58 per option. The significant inputs into the model are as follows:

Share price at the grant date	HK\$1.58
Exercise price	HK\$1.58
Dividend yield	0%
Volatility	42.25%
Annual risk-free interest rate	1.486%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 1,269 days historical volatilities of comparable companies within the industry.

The aggregate fair value of the options granted during the year amounted to HK\$834,000 is to be recognised as employment benefit over the vesting periods together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Trinomial valuation model.

Other details of the share options under the 2016 Share Option Scheme are set out in Note 33 to the consolidated financial statements.

### Bank Borrowings

Details of the bank borrowings of the Group are set out in Note 26 to the consolidated financial statements.

### Donations

Charitable and other donations made by the Group during the year amounted to HK\$36,000 (2018: HK\$150,000).

### Directors

The directors of the Company (the "Directors") who held office during the year and up to the date of this report are:

#### Executive Director:

Mr. WANG Kin Chung, Peter (*Chairman and Chief Executive Officer*)

#### Non-Executive Directors:

Ms. WANG KOO Yik Chun (*Honorary Chairlady*)  
Ms. MAK WANG Wing Yee, Winnie  
Dr. WANG Shui Chung, Patrick

#### Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony  
Mr. James Christopher KRALIK  
Mr. Peter TAN

For compliance with Code Provision A.4.2 set out in the Corporate Governance Code of the Listing Rules and in accordance with Bye-Laws 85 and 86 of the Company's Bye-Laws, Ms. WANG KOO Yik Chun and Mr. Peter TAN will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming 2020 AGM.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. These written confirmations also covered the immediate family members of each of the Independent Non-Executive Directors. Among the Independent Non-Executive Directors of the Company, none of them hold cross-directorships with other Directors.

## Report of the Directors

### Biographical Details of Directors and Senior Management

There is no change in Director's biographical details since the date of the Company's interim report for the six months ended 30 June 2019 issued in September 2019 which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Brief biographical details of the Directors and the Senior Management of the Group as at the date of this report are set out on pages 34 to 35.

### Directors' Interests in Securities

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules, were as follows:

#### Interests in shares of the Company

Name of Director	Long/short position	Number of shares held			Approximate percentage of issued share capital
		Through spouse or minor child	Through controlled corporation	Total	
Mr. WANG Kin Chung, Peter	Long position	3,212,000 (Note 1)	182,577,000 (Note 2)	185,789,000	68.40%

#### Interests in shares of Hua Thai Manufacturing Public Company Limited ("Hua Thai")

Name of Director	Long/short position	Class	Number of shares held		Approximate percentage of issued share capital
			Through spouse or minor child	Total	
Ms. WANG KOO Yik Chun	Long position	Ordinary share	2,500 (Note 3)	2,500	0.03%

#### Notes:

- 3,212,000 shares were beneficially owned by Ms. Daisy TING, the spouse of Mr. WANG Kin Chung, Peter.
- 182,577,000 shares were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was a company wholly owned by Mr. WANG Kin Chung, Peter.
- 2,500 shares in Hua Thai were held by the late Mr. WANG Seng Liang, the spouse of Ms. WANG KOO Yik Chun.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

## Report of the Directors

### Arrangement to Acquire Shares or Debentures

Save as disclosed in the "Share Options" section in this report and in Note 33 to the consolidated financial statements, at no time during the year or at the end of the year was the Company, its subsidiaries, its holding company or the subsidiaries of its holding company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Equity-Linked Agreements

Save as disclosed in the "Share Options" section in this report and in Note 33 to the consolidated financial statements, at no time during the year or at the end of the year was the Company a party to any equity-linked agreements.

### Directors' Service Contracts

None of the Directors proposed for re-election at the 2020 AGM has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### Substantial Shareholders

As at 31 December 2019, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long/short position	Number of shares held			Total	Approximate percentage of issued share capital
		Directly beneficially owned	Through spouse or minor child	Through controlled corporation		
Ms. Daisy TING	Long position	3,212,000	182,577,000 (Note)	–	185,789,000	68.40%
New Perfect Global Limited	Long position	–	–	182,577,000 (Note)	182,577,000	67.22%
Silver Tree Holdings Inc.	Long position	182,577,000 (Note)	–	–	182,577,000	67.22%

Note:

These interests relate to the same block of shares of the Company, which were beneficially owned by Silver Tree Holdings Inc., a company 100% controlled by New Perfect Global Limited, which in turn was a company wholly owned by Mr. WANG Kin Chung, Peter. Since Ms. Daisy TING is the spouse of Mr. WANG Kin Chung, Peter, she is deemed to be interested in the shares controlled by Mr. WANG Kin Chung, Peter under Part XV of the SFO.

Save as disclosed above, as at 31 December 2019, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

### Emolument Policy

The Group provides competitive compensation and benefits for its employees, including group personal accident insurance, retirement and medical benefit schemes.

Remuneration packages are generally structured by reference to market and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Those employees with outstanding performance are also awarded discretionary bonuses and share options.

### Interests of Directors and Controlling Shareholders in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the section headed "Connected Transactions" in this report, no transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which any of the Company's Director or an entity connected with the Director or controlling shareholder or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Directors' Interests in Competing Businesses

During the year ended 31 December 2019, none of the Directors had any interest in business apart from the Group's businesses which competed, or was likely to compete, either directly or indirectly, with the Group's businesses under Rule 8.10 of the Listing Rules.

Emolument policy is reviewed regularly by the Board and by the Remuneration Committee in respect of the Directors and Senior Management. The emoluments payable to the Directors are determined at arm's length on the basis of responsibilities involved, time devoted, current financial position of the Company and the prevailing market conditions.

Details of the emoluments of the Directors for the year ended 31 December 2019 are set out in Note 12 to the consolidated financial statements.

## Report of the Directors

### Permitted Indemnity Provision

Pursuant to Bye-Law 145 of the Company's Bye-Laws, the Directors shall be indemnified out of the assets of the Company from liabilities which they may incur by reason of the execution of their duties, unless such indemnification provision is avoided by any provisions of the applicable laws of Bermuda.

The Company has arranged directors' and officers' liability insurance during the year.

### Retirement Benefit Schemes

Details of the retirement benefit schemes of the Group are set out in Note 27 to the consolidated financial statements.

### Management Contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

### Major Customers and Suppliers

The percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer and the five largest customers combined were 17% and 52%, respectively.

The aggregate purchases attributable to the Group's five largest suppliers combined were less than 30% of the Group's total purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had, at any time during the year, a beneficial interest in any of the Group's five largest customers.

### Connected Transactions

On 13 February 2017, Gold Flower Limited ("Gold Flower"), a wholly-owned subsidiary of the Company, as tenant, entered into a tenancy agreement (the "Previous TA") with TDB Company Limited ("TDB"), as landlord, for the leasing of the premises at Ground Floor, 2nd Floor, 4th to 7th Floors, 9th to 10th Floors, and a portion of flat roofs on 3rd Floor, Tak Tai Industrial Building, 66-72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong (the "Building") for a term of two years from 1 April 2017 to 31 March 2019.

On 26 March 2018, Gold Flower entered into the supplemental tenancy agreement to the Previous TA (the "Previous Supplemental TA") with TDB to surrender the 2nd Floor and take over the 8th Floor of the Building so as to reduce the area rented and the monthly rent payable with effect from 15 March 2018 with all other terms and conditions of the Previous TA remaining unchanged. The premises, after the change, comprise: Ground Floor, 4th to 10th Floors, and a portion of flat roofs on 3rd Floor of the Building (the "Premises").

On 18 February 2019, a new tenancy agreement (the "New TA") was entered into between Gold Flower as tenant, and TDB as landlord, for the leasing of the Premises for a term of two years from 1 April 2019 to 31 March 2021.

As at the respective dates of the Previous TA, the Previous Supplemental TA and the New TA, the entire issued share capital of TDB was held by a discretionary trust of which Mr. WANG Kin Chung, Peter and Ms. WANG KOO Yik Chun, both being Directors, were eligible beneficiaries. TDB was therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Previous TA (as amended by the Previous Supplemental TA) constituted continuing connected transactions (the "Continuing Connected Transactions") and the New TA constituted connected transaction (the "Connected Transaction") for the Company under Chapter 14A of the Listing Rules.

(i) Details of the Previous TA (as amended by the Previous Supplemental TA) were as follows:

Term	:	Two years from 1 April 2017 to 31 March 2019
Monthly rent	:	HK\$570,000 for the period from 1 April 2017 to 14 March 2018 (pursuant to the Previous TA)
		HK\$550,000 for the period from 15 March 2018 to 31 March 2019 (pursuant to the Previous Supplemental TA)
		(excluding management fees, government rates and government rent)

Use of the premises rented : As factory, storage and ancillary office of the Company and certain of its subsidiaries

The annual rent (the "Annual Cap"/"Revised Annual Cap") paid by Gold Flower under the Previous TA (as supplemented by the Previous Supplemental TA) for each of the three financial years ended 31 December 2019 was as follows:

Period	Annual Cap /Revised Annual Cap HK\$
1 April 2017 to 31 December 2017	5,130,000
1 January 2018 to 31 December 2018	6,649,032
1 January 2019 to 31 March 2019	1,650,000

(ii) Details of the New TA were as follows:

Term	:	Two years from 1 April 2019 to 31 March 2021
Monthly rent	:	HK\$620,000 (excluding management fees, government rates and government rent)
Use of the Premises	:	As factory, storage and ancillary office of the Company and certain of its subsidiaries

The Annual Cap paid or payable by Gold Flower under the New TA for each of the three financial years ending 31 December 2021 is as follows:

Period	Annual Cap HK\$
1 April 2019 to 31 December 2019	5,580,000
1 January 2020 to 31 December 2020	7,440,000
1 January 2021 to 31 March 2021	1,860,000

## Report of the Directors

The terms of the Previous TA, the Previous Supplemental TA and the New TA were arrived at after arm's length negotiations between Gold Flower and TDB, and on the basis of the valuation made by an independent property valuer.

For the year ended 31 December 2019, the rent paid under the Previous TA (as amended by the Previous Supplemental TA) and the New TA did not exceed the Revised Annual Cap and Annual Cap set under the aforesaid tenancy agreements.

Further details of the Continuing Connected Transactions and the Connected Transaction were set out in the announcements of the Company dated 13 February 2017, 26 March 2018, 4 April 2018 and 18 February 2019 respectively.

The Independent Non-Executive Directors have reviewed the Continuing Connected Transactions and the Connected Transaction and confirmed that during the year such transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the Previous TA (as amended by the Previous Supplemental TA) and the New TA on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions during the year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusion in respect of the Continuing Connected Transactions disclosed on pages 43 to 44 of this report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### Related Party Transactions

Details of the related party transactions of the Group are set out in Note 36 to the consolidated financial statements.

The tenancy agreements under Note 36(a) constituted connected transactions for the Company under the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The cash advance under Note 36(b)(ii) constituted a connected transaction but was exempt from the disclosure requirements under the Listing Rules.

The remaining related party transactions under Note 36(b)(i) were not connected transactions under the Listing Rules.

### Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda (being the jurisdiction in which the Company was incorporated).

### Purchase, Sale or Redemption of Shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

### Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

### Corporate Governance Code

Throughout the year ended 31 December 2019, the Company has complied with all the Code Provisions set out in the CG Code, except for the deviation from Code Provisions A.2.1 and A.5.

Considered reasons for the deviation from Code Provisions A.2.1 and A.5 as well as further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 14 to 21.

### Auditor

The consolidated financial statements have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**WANG Kin Chung, Peter**

*Chairman and Chief Executive Officer*

Hong Kong, 31 March 2020

## Independent Auditor's Report



### Independent Auditor's Report to the Shareholders of Tristate Holdings Limited

(Incorporated in Bermuda with limited liability)

#### Opinion

We have audited the consolidated financial statements of Tristate Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 96, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### Basis for Opinion

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

#### Key Audit Matters

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

#### Assessment of potential impairment of property, plant and equipment ("PP&E") and licence rights relating to the loss-making units in brands business

Refer to Notes 3(b), 14, 15 and 16 to the consolidated financial statements and the accounting policies in Notes 2(g), 2(h), 2(i)(ii) and 2(u).

##### The Key Audit Matter

In view of the loss sustained by certain units in the brands business segment of the Group for the year ended 31 December 2019, management considered that indicators of potential impairment of the related PP&E and licence rights existed as at 31 December 2019.

In assessing whether impairment existed at the reporting date, management determined the recoverable amounts of the smallest cash-generating units ("CGUs") to which the PP&E and licence rights of these loss-making units were allocated. The recoverable amount of a CGU is the greater of its value in use and the fair value less cost of disposal of the related assets.

In order to determine the recoverable amounts management prepared discounted cash flow forecasts and engaged independent external valuers to perform valuations of the buildings and land use rights included in the CGUs.

The preparation of discounted cash flow forecasts involves significant management judgement, in particular in relation to the forecasts of future revenue, future margins, future cost growth rates and the discount rates applied.

##### How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of PP&E and licence rights relating to the loss-making units in brands business included the following:

- assessing and challenging the Group's impairment assessment models, which included evaluating the indicators of impairment and the allocation of assets to CGUs by management with reference to the requirements of the prevailing accounting standards;
- obtaining and inspecting the valuation reports prepared by the independent external valuers engaged by the Group and assessing the independent external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity and independence;
- evaluating and discussing the valuation methodology adopted with the independent external property valuers and assessing the key estimates and assumptions adopted, which included property-specific adjustment factors and the choice of market comparable transactions, taking into consideration of comparability and other market factors;
- challenging the key assumptions adopted by management in their preparation of the discounted cash flow forecasts and comparing the significant inputs, such as future revenue, future margins and future cost growth rates with the historical performance of the relevant CGUs;

# Independent Auditor's Report

## Key Audit Matters (Continued)

### Assessment of potential impairment of property, plant and equipment ("PP&E") and licence rights relating to the loss-making units in brands business (Continued)

#### The Key Audit Matter (Continued)

The valuations prepared by the independent external property valuers also involve significant judgement, particularly in respect of property-specific adjustment factors and the choice of market comparable transactions.

We have identified assessing potential impairment of PP&E and licence rights related to the loss-making units in brands business as a key audit matter because of the potential significance of any impairment charge to the results of the Group for the year and because forecasting future cash flows and determining an appropriate discount rate, and assessing valuation of the buildings and land use rights can be inherently subjective and require significant judgement and estimation which increase the risk of error or potential management bias.

#### How the matter was addressed in our audit (Continued)

- comparing the key assumptions included in the discounted cash flow forecasts for the prior year with the current year's performance to assess the reliability of management's forecasting process and making enquiries of management as to the reasons for any significant variations identified;
- engaging our internal valuation specialists to assist us in assessing the methodology applied by management in its discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and whether the key assumptions adopted in the discounted cash flow forecasts, which included the sales growth rate and the discount rate, were comparable with those of companies in the same industry and external market data; and
- performing a sensitivity analysis of the key assumptions adopted in the discounted cash flow forecasts prepared by management and assessing the impact of changes in the key assumptions to the conclusion reached in the impairment assessment and whether there were any indicators of management bias.

## Information other than the Consolidated Financial Statements and Auditor's Report thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors 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.

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



## Independent Auditor's Report

### 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. CHENG Mei Yan Hilary.

#### **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

31 March 2020

## Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

		2019	2018
	Note	HK\$'000	(Note) HK\$'000
Revenue	4	<b>3,001,253</b>	2,578,322
Cost of sales	19	<b>(2,172,630)</b>	(1,958,175)
Gross profit		<b>828,623</b>	620,147
Other income and other net gains	5	<b>17,101</b>	3,430
Selling and distribution expenses		<b>(330,880)</b>	(208,697)
General and administrative expenses		<b>(494,885)</b>	(471,364)
Profit/(loss) from operations	6	<b>19,959</b>	(56,484)
Finance income	7	<b>1,930</b>	3,574
Finance costs	7	<b>(34,119)</b>	(17,928)
Loss before taxation		<b>(12,230)</b>	(70,838)
Income tax charge	8	<b>(24,707)</b>	(8,995)
Loss for the year		<b>(36,937)</b>	(79,833)
Attributable to:			
Equity shareholders of the Company		<b>(38,829)</b>	(80,455)
Non-controlling interests		<b>1,892</b>	622
Loss for the year		<b>(36,937)</b>	(79,833)
Loss per share attributable to equity shareholders of the Company:			
Basic	10	<b>HK\$(0.14)</b>	HK\$(0.30)
Diluted	10	<b>HK\$(0.14)</b>	HK\$(0.30)

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 52 to 96 form part of these financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019	2018
	HK\$'000	(Note) HK\$'000
Loss for the year	<b>(36,937)</b>	(79,833)
Other comprehensive income, net of nil tax unless specified:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Fair value changes on cash flow hedges:		
Losses arising during the year	<b>(7,402)</b>	(14,477)
Transferred to and included in the following line items in the consolidated statement of profit or loss:		
Cost of sales	<b>8,510</b>	5,464
General and administrative expenses	<b>2,521</b>	3,242
Realisation of exchange reserve upon disposal of a subsidiary	<b>(390)</b>	–
Exchange difference on translation of financial statements of overseas subsidiaries	<b>(3,063)</b>	(32,446)
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurements of defined benefit plans and long service payment liabilities	<b>(5,418)</b>	399
Income tax effect	<b>690</b>	(187)
Other comprehensive income for the year	<b>(4,552)</b>	(38,005)
Total comprehensive income for the year	<b>(41,489)</b>	(117,838)
Attributable to:		
Equity shareholders of the Company	<b>(43,381)</b>	(118,460)
Non-controlling interests	<b>1,892</b>	622
Total comprehensive income for the year	<b>(41,489)</b>	(117,838)

## Consolidated Statement of Financial Position

As at 31 December 2019

		As at 31 December 2019	As at 31 December 2018 (Note)		As at 31 December 2019	As at 31 December 2018 (Note)
	Note	HK\$'000	HK\$'000		Note	HK\$'000
<b>Non-current assets</b>				<b>Non-current liabilities</b>		
Property, plant and equipment	14	652,354	308,963	Retirement benefits and other post retirement obligations	27	43,677
Leasehold land and land use rights	15	–	126,310	Licence fees payable	28	301,704
Intangible assets	16	455,674	491,905	Lease liabilities	29	144,597
Other long-term assets	17	27,223	13,006	Deferred tax liabilities	30(b)	23,512
Deferred tax assets	30(b)	3,490	5,230	Forward foreign exchange contracts	21	1,661
Defined benefit plan assets	27	8,704	7,930			515,151
Forward foreign exchange contracts	21	3	964			367,360
Interest in an associate	18	–	–	<b>Net assets</b>		<b>1,136,604</b>
		<b>1,147,448</b>	954,308	<b>Capital and reserves</b>		
<b>Current assets</b>				Share capital	31	27,161
Inventories	19	413,974	402,939	Reserves	32	1,109,877
Accounts receivable and bills receivable	20	352,705	297,609	Total equity attributable to equity shareholders of the Company		1,137,038
Forward foreign exchange contracts	21	516	449	Non-controlling interests		(434)
Prepayments and other receivables	22	76,546	74,337	<b>Total Equity</b>		<b>1,136,604</b>
Current tax recoverable		107	258			1,179,670
Cash and bank balances	23	285,363	321,892			(2,326)
		<b>1,129,211</b>	1,097,484			1,177,344
<b>Current liabilities</b>						
Accounts payable and bills payable	24	179,110	166,179			
Accruals and other payables and contract liabilities	25	269,277	245,689			
Lease liabilities	29	70,286	–			
Forward foreign exchange contracts	21	7,344	8,350			
Current tax liabilities		34,347	13,078			
Bank borrowings	26	64,540	73,792			
		<b>624,904</b>	507,088			
<b>Net current assets</b>		<b>504,307</b>	590,396			
<b>Total assets less current liabilities</b>		<b>1,651,755</b>	1,544,704			

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the Board of Directors on 31 March 2020.

**WANG Kin Chung, Peter**  
Director

**MAK WANG Wing Yee, Winnie**  
Director

The notes on pages 52 to 96 form part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity shareholders of the Company			Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Total HK\$'000		
Balance at 1 January 2019	<b>27,161</b>	<b>1,152,509</b>	<b>1,179,670</b>	<b>(2,326)</b>	<b>1,177,344</b>
Loss for the year	–	<b>(38,829)</b>	<b>(38,829)</b>	<b>1,892</b>	<b>(36,937)</b>
Other comprehensive income, net of tax	–	<b>(4,552)</b>	<b>(4,552)</b>	–	<b>(4,552)</b>
Total comprehensive income	–	<b>(43,381)</b>	<b>(43,381)</b>	<b>1,892</b>	<b>(41,489)</b>
Share option scheme – value of employee services	–	<b>749</b>	<b>749</b>	–	<b>749</b>
Balance at 31 December 2019	<b>27,161</b>	<b>1,109,877</b>	<b>1,137,038</b>	<b>(434)</b>	<b>1,136,604</b>

	Attributable to equity shareholders of the Company			Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Total HK\$'000		
Balance at 1 January 2018	27,161	1,268,875	1,296,036	(2,948)	1,293,088
Impact of initial adoption of HKFRS 9	–	1,550	1,550	–	1,550
Adjusted balance at 1 January 2018	27,161	1,270,425	1,297,586	(2,948)	1,294,638
Loss for the year	–	(80,455)	(80,455)	622	(79,833)
Other comprehensive income, net of tax	–	(38,005)	(38,005)	–	(38,005)
Total comprehensive income	–	(118,460)	(118,460)	622	(117,838)
Share option scheme – value of employee services	–	544	544	–	544
Balance at 31 December 2018	27,161	1,152,509	1,179,670	(2,326)	1,177,344

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 52 to 96 form part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2019

		2019	2018
	Note	HK\$'000	(Note) HK\$'000
Operating activities			
Cash generated from/ (used in) operations	37(a)	<b>127,682</b>	(112,604)
Income tax paid		<b>(3,341)</b>	(1,200)
Net cash generated from/ (used in) operating activities		<b>124,341</b>	(113,804)
Investing activities			
Interest received		<b>1,347</b>	3,467
Payment for the purchase of property, plant and equipment		<b>(87,624)</b>	(48,007)
Proceeds from disposals of property, plant and equipment and leasehold land		<b>422</b>	695
Net proceeds from disposal of a subsidiary	5	<b>11,850</b>	–
Decrease in short- term bank deposits, with maturities over 3 months		–	25,180
Increase in pledged bank deposits		<b>(3,101)</b>	(31,318)
Decrease in bank structured deposits		<b>27,888</b>	1,422
Net cash used in investing activities		<b>(49,218)</b>	(48,561)
Financing activities			
Capital element of lease rentals paid	37(b)	<b>(63,689)</b>	–
Interest element of lease rentals paid	37(b)	<b>(8,807)</b>	–
Interest paid	37(b)	<b>(4,132)</b>	(4,253)
Proceeds from new bank borrowings	37(b)	<b>489,511</b>	697,200
Repayment of bank borrowings	37(b)	<b>(498,763)</b>	(722,279)
Net cash used in financing activities		<b>(85,880)</b>	(29,332)

		2019	2018
	Note	HK\$'000	(Note) HK\$'000
Net decrease in cash and cash equivalents		<b>(10,757)</b>	(191,697)
Cash and cash equivalents at beginning of the year	23	<b>262,686</b>	458,500
Effect on foreign exchange rate changes		<b>(985)</b>	(4,117)
Cash and cash equivalents at end of the year	23	<b>250,944</b>	262,686

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 52 to 96 form part of these financial statements.

# Notes to the Consolidated Financial Statements

## 1. General Information

Tristate Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The address of its head office and principal place of business in Hong Kong is 5th Floor, 66 – 72 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (together the "Group") are (i) garment manufacturing, and (ii) brands business.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1988.

These consolidated financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the "Board") on 31 March 2020.

## 2. Significant Accounting Policies

The basis of preparation and significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments and structured bank deposits are stated at their fair values (see Note 2(n)(i)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

### (c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### *HKFRS 16, Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

#### b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in Note 14. For an explanation of how the Group applies lessee accounting, see Note 2(h).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing

rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.51%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in Note 35(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	<b>1 January 2019 HK\$'000</b>
Operating lease commitment at 31 December 2018	<b>92,504</b>
Less: short-term leases and other leases with remaining lease term ending on or before 31 December 2019 exempt from capitalisation	<b>(13,159)</b>
Add: lease payments for the additional periods where the Group considers it reasonably certain it will not exercise early termination options	<b>119,010</b>
	<b>198,355</b>
Less: total future interest expenses	<b>(50,486)</b>
<b>Total lease liabilities recognised at 1 January 2019</b>	<b>147,869</b>

The right-of-use assets in relation to lease previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 January 2019 <i>HK\$'000</i>
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16</b>			
Property, plant and equipment	308,963	272,385	581,348
Leasehold land and land use rights	126,310	(126,310)	–
<b>Total non-current assets</b>	954,308	146,075	1,100,383
Accruals and other payables and contract liabilities	245,689	(1,794)	243,895
Lease liabilities	–	32,109	32,109
<b>Current liabilities</b>	507,088	30,315	537,403
<b>Net current assets</b>	590,396	(30,315)	560,081
<b>Total assets less current liabilities</b>	1,544,704	115,760	1,660,464
Lease liabilities (non-current)	–	115,760	115,760
<b>Total non-current liabilities</b>	367,360	115,760	483,120
<b>Net assets</b>	1,177,344	–	1,177,344

#### c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This has impacted the reported results in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 37(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 37(c)).



## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018	
	Amounts reported under HKFRS 16 (A) HK\$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK\$'000	Deduct: HKFRS 16 depreciation related to prepaid leasehold land and land use rights (C) HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (Note 1) (D) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (A + B + C + D) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
<b>Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16</b>						
<b>Profit/(loss) from operations</b>	<b>19,959</b>	<b>69,895</b>	<b>(3,468)</b>	<b>(72,496)</b>	<b>13,890</b>	(56,484)
Finance costs	(34,119)	8,807	–	–	(25,312)	(17,928)
<b>Loss before taxation</b>	<b>(12,230)</b>	<b>78,702</b>	<b>(3,468)</b>	<b>(72,496)</b>	<b>(9,492)</b>	(70,838)
<b>Loss for the year</b>	<b>(36,937)</b>	<b>78,702</b>	<b>(3,468)</b>	<b>(72,496)</b>	<b>(34,199)</b>	(79,833)
<b>Loss attributable to equity shareholders</b>	<b>(38,829)</b>	<b>78,336</b>	<b>(3,468)</b>	<b>(72,174)</b>	<b>(36,135)</b>	(80,455)
<b>Reportable segment profit/(loss) (adjusted EBITDA) for year ended 31 December 2019 impacted by the adoption of HKFRS 16</b>						
– Garment manufacturing	192,006	–	–	(8,236)	183,770	143,685
– Brands business	(32,020)	–	–	(52,114)	(84,134)	(120,172)
– Unallocated	28,300	–	–	(12,146)	16,154	2,035
<b>– Total</b>	<b>188,286</b>	<b>–</b>	<b>–</b>	<b>(72,496)</b>	<b>115,790</b>	25,548

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) HK\$'000	Estimated amounts related to operating leases as if under HKAS 17 (Notes 1 & 2) (B) HK\$'000	Hypothetical amounts for 2019 As if under HKAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
<b>Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:</b>				
Cash generated from/(used in) operations	127,682	(72,496)	55,186	(112,604)
<b>Net cash generated from/(used in) operating activities</b>	<b>124,341</b>	<b>(72,496)</b>	<b>51,845</b>	(113,804)
Capital element of lease rentals paid	(63,689)	63,689	–	–
Interest element of lease rentals paid	(8,807)	8,807	–	–
<b>Net cash used in financing activities</b>	<b>(85,880)</b>	<b>72,496</b>	<b>(13,384)</b>	(29,332)

Notes:

- The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.
- In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

#### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(e)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(u)).

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

#### (e) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(u)). Any acquisition date excess over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

#### (f) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see Note 2(n)(ii)(b)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

#### (g) Property, plant and equipment

Interests in freehold land are stated at cost less impairment loss (see Note 2(u)) and not depreciated. All other property, plant and equipment, including right-of-use assets arising from leases over leasehold properties and items of plant and equipment where the group is not the registered owner of the property interest, are stated at cost less accumulated depreciation and impairment losses (see Note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, as follows:

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.
- Leasehold land is depreciated over the unexpired term of lease.
- The Group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the building's estimated useful life, being no more than 50 years after the date of completion.
- Plant and machinery 10% – 33%
- Leasehold improvements, furniture, fixtures and equipment 4% – 50%
- Motor vehicles 14% – 20%

Both the useful life of an asset and its residual value, if any, are reviewed annually.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

#### (h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

##### (A) Policy as a lessee applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(u)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or 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 liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

##### (B) Policy as a lessee prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership of assets to the Group were classified as operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they are incurred.

Leasehold land and land use rights were classified as either finance or operating leases depending upon whether the lease transferred substantially all the risks and rewards incidental to its ownership to the Group.

When the interests were classified as operating leases, the premiums paid to acquire leasehold land and land use rights were recorded as prepayment for operating lease, and were amortised on a straight-line basis over the period of the leases and land use rights of 10 to 50 years. Where there was impairment, the impairment was expensed immediately in the consolidated statement of profit or loss.

When the interests were classified as finance leases and held for own use, the land interest is accounted for as property, plant and equipment.

#### (i) Intangible assets

##### (i) Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(u)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

#### (ii) Licence rights/Licence fees payable

Licence rights on brands are stated at cost less accumulated amortisation and impairment losses (see Note 2(u)). Licence rights are initially measured as the fair value of the consideration given for the recognition of the licence rights at the time of their inception. The consideration given is determined based on the capitalisation of the minimum licence fee payments in accordance with the licence agreements. Amortisation of licence rights with finite useful lives is charged to profit or loss on a straight-line basis over the licence period, with both the period and method of amortisation reviewed annually.

Licence fees payable in respect of the inception of the licence rights are initially recognised at fair value of the consideration given for the recognition of the licence rights at the time of the inception, which represents present values of the contractual minimum payments that can be reliably estimated at the time of the inception. They are subsequently stated at amortised cost using the effective interest method.

#### (iii) Trademarks

Trademarks that are acquired by the Group are stated at cost less impairment losses (see Note 2(u)). Trademarks are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives with both the period and method of amortisation reviewed annually.

#### (iv) Customer relationship

Customer relationship is stated at cost less accumulated amortisation and impairment losses (see Note 2(u)). Amortisation of customer relationship with finite useful lives is charged to profit or loss on a straight-line basis over the estimated useful lives, with both the period and method of amortisation reviewed annually.

#### (j) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using specific identification method or first-in, first-out cost formula for inventories of garment manufacturing segment and the weighted average cost formula for inventories of brands business segment. Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### (k) Accounts and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(l)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses based on the expected credit loss ("ECL") assessment (see Note 2(v)).

#### (l) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(t)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(v) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

#### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(v).

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

#### (n) Derivative financial instruments and hedging activities

##### (i) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see Note 2(n)(ii)).

##### (ii) Hedging activities

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (cash flow hedges) and as hedges of the foreign exchange risk of a net investment in a foreign operation.

##### a. Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset such as inventory, the associated gain or loss is reclassified from equity to be included in the initial cost of the non-financial asset.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

##### b. Hedge of net investments in foreign operations

The effective portion of any foreign exchange gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

#### (o) Accounts and other payables

Accounts and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (p) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When time value of money is material, provisions are stated at present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefit is remote.

#### (q) Employee benefits

##### (i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### (ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss in employee benefit expenses. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

#### (iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee benefit expense with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the Trinomial valuation model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

#### (iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

#### (r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (s) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Borrowing costs are expensed in the period in which they are incurred.

#### (t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### (i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### (ii) Service income

Service fees are recognised over time as the services are provided. Service fees exclude value added tax or other sales taxes.

##### (iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(v)).

##### (iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

#### (u) Impairment of investments in subsidiaries, investment in an associate and non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- investments in subsidiaries in the Company's statement of financial position;
- investment in an associate;
- property, plant and equipment, including right-of-use assets;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

##### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).



## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

#### – Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

#### – Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (v) Credit losses from financial instruments

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and bank balances and accounts and other receivables). Financial assets measured at fair value are not subject to the ECL assessment.

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Where the effect of discounting is material, the expected cash shortfalls of accounts receivable, bills receivable and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivable and bills receivable are always measured at an amount equal to lifetime ECLs. ECLs on these receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

#### Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the financial asset is 90 days past due. 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 since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

## Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### *Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(t)(iii) 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 (i.e. the gross carrying amount less loss allowance) of the financial asset.

#### *Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

### (w) Financial guarantees

Financial guarantees issued are contracts that require the issuer (i.e. the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee (i.e. the "holder") for a loss the holder incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

The Group does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at the end of each reporting period by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee were to result in a present legal or constructive obligation. If the liability is less than the amount of the present legal or constructive obligation, the entire difference is recognised immediately in profit or loss.

### (x) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## Notes to the Consolidated Financial Statements

### 3. Critical Accounting Estimates And Judgements

Notes 16, 27 and 33 contain information about the assumptions and their risk factors relating to impairment assessment of intangible assets, retirement benefits and other post retirement obligations and fair value of share options granted. Other key sources of estimation uncertainty are as follows:

#### (a) Useful lives, residual values and depreciation of property, plant and equipment

Management of the Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

#### (b) Estimated impairment of non-financial assets, including goodwill, trademark and licence rights

The Group assesses whether non-financial assets including goodwill, trademark and licence rights have suffered any impairment in accordance with the accounting policy stated in Note 2(u). The recoverable amounts of non-financial assets including goodwill, trademark and licence rights have been determined based on the greater of value in use and fair value less costs of disposal. These calculations require the use of judgement and estimates, in particular of future revenues or cash flows. Management has performed impairment assessment on property, plant and equipment, goodwill, trademark and licence rights as at 31 December 2019. Management believes that any reasonable possible deviation from any of these assumptions would not cause the aggregate carrying amounts of CGUs to exceed their recoverable amounts.

#### (c) Current and deferred taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax assets and liabilities in the period in which such determinations are made.

Deferred tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets in the period in which such estimates have been changed.

#### (d) Estimated write-down of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-down on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-down requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories in the period in which such estimates have been changed.

#### (e) Impairment of accounts receivable and bills receivable

The Group estimates the loss allowances for accounts receivable and bills receivable by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of accounts receivable and bills receivable and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of accounts receivable and bills receivable during their expected lives.

#### (f) Determining the lease term

As explained in Note 2(h), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

## 4. Revenue and Segment Reporting

### (a) Revenue

The principal activities of the Group are (i) garment manufacturing, and (ii) brands business.

Revenue represents the fair value of the consideration received or receivable from products sold, excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from sales of goods was recognised at point in time for the year ended 31 December 2019 and 2018.

*Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date*

As at 31 December 2019, none of the remaining performance obligations under the Group's existing contracts had an original expected duration of more than one year.

For remaining performance obligations of existing contracts that had had an original expected duration of one year or less, the Group has applied the practical expedient in paragraph 121 of HKFRS 15 such that it does not include information about revenue for the remaining performance obligations under the contracts.

## Notes to the Consolidated Financial Statements

### 4. Revenue and Segment Reporting (Continued)

#### (b) Segment reporting

Reportable segments are reported in a manner consistent with internal reports of the Group that are regularly reviewed by the chief operating decision makers (the Chief Executive Officer and Senior Management collectively) in order to assess performance and allocate resources. The Group manages its business by business units, which are organised by business lines and geography. The Group identified two reportable segments: (i) garment manufacturing, and (ii) brands business. The chief operating decision makers assess the segment performance and allocate resources between segments based on the measure of profit or loss generated. This measurement basis is equivalent to profit/loss for the year of that reportable segment.

Segment assets include all tangible, intangible assets and current assets employed by the segments. Segment liabilities include all current liabilities and non-current liabilities managed directly by the segments. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders. The segment information is as follows:

	Garment manufacturing		Brands business		Unallocated (Note (iii))		Total	
	2019 HK\$'000	2018 (Note (i)) HK\$'000	2019 HK\$'000	2018 (Note (i)) HK\$'000	2019 HK\$'000	2018 (Note (i)) HK\$'000	2019 HK\$'000	2018 (Note (i)) HK\$'000
Reportable segment revenue	2,317,835	2,172,889	690,766	419,899	-	-	3,008,601	2,592,788
Less: Inter-segment revenue	(7,065)	(14,466)	(283)	-	-	-	(7,348)	(14,466)
Revenue	2,310,770	2,158,423	690,483	419,899	-	-	3,001,253	2,578,322
Reportable segment EBITDA (Note (ii))	192,006	143,685	(32,020)	(120,172)	28,300	2,035	188,286	25,548
Finance income	-	-	583	107	1,347	3,467	1,930	3,574
Finance costs								
- Interest on bank borrowings	-	-	-	-	(4,132)	(4,253)	(4,132)	(4,253)
- Interest on licence fees payable	-	-	(21,180)	(13,675)	-	-	(21,180)	(13,675)
- Interest on lease liabilities	(2,740)	-	(5,520)	-	(547)	-	(8,807)	-
Depreciation charge								
- Own property, plant and equipment	(28,817)	(31,456)	(20,247)	(12,064)	(13,216)	(14,104)	(62,280)	(57,624)
- Right-of-use assets	(6,636)	-	(51,959)	-	(11,300)	-	(69,895)	-
Amortisation of leasehold land and land use rights (Note (i))	-	(311)	-	-	-	(3,308)	-	(3,619)
Amortisation of intangible assets								
- Licence rights	-	-	(31,585)	(20,718)	-	-	(31,585)	(20,718)
- Other intangible assets	-	-	(67)	(71)	-	-	(67)	(71)
Impairment of property, plant and equipment	-	-	(4,500)	-	-	-	(4,500)	-
Reportable segment profit/(loss) before tax	153,813	111,918	(166,495)	(166,593)	452	(16,163)	(12,230)	(70,838)
Income tax (charge)/credit	(18,297)	(14,934)	(10,821)	(380)	4,411	6,319	(24,707)	(8,995)
Reportable segment profit/(loss) for the year	135,516	96,984	(177,316)	(166,973)	4,863	(9,844)	(36,937)	(79,833)

#### Notes:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).
- (ii) EBITDA is defined as earnings before finance income, finance costs, income tax (charge)/credit, depreciation and amortisation. EBITDA is a non-HKFRS measure used by management for monitoring business performance. It may not be comparable to similar measures presented by other companies.
- (iii) Unallocated segment profit or loss for the year mainly include net gain on disposal of a subsidiary, income and expenses arising from unallocated assets and liabilities for corporate purposes and head office expenses.

## Notes to the Consolidated Financial Statements

### 4. Revenue and Segment Reporting (Continued)

	Garment manufacturing		Brands business		Unallocated (Note (iii))		Total	
	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	799,821	801,906	1,064,468	803,795	412,370	446,091	2,276,659	2,051,792
Reportable segment liabilities	366,291	332,362	698,758	468,294	75,006	73,792	1,140,055	874,448
	2019	2018 (Note (i))	2019	2018 (Note (i))	2019	2018 (Note (i))	2019	2018 (Note (i))
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for impairment of receivables, net (Write-down)/reversal of write-down of inventories to net realisable value, net	(8)	(472)	(5,781)	(497)	-	-	(5,789)	(969)
Additions to property, plant and equipment and intangible assets	(15,206)	(13,612)	7,750	(16,251)	-	-	(7,456)	(29,863)
	20,701	25,337	184,170	353,388	17,875	3,257	222,746	381,982

The Group's revenue is mainly derived from customers located in the People's Republic of China (the "PRC"), the United States of America ("US"), the United Kingdom ("UK") and Canada, while the Group's production facilities, trademark, licence rights and other assets are located predominantly in the PRC, Luxembourg and Thailand. The PRC includes the Mainland China, Hong Kong and Macau. An analysis of the Group's revenue by location of customers and an analysis of the Group's non-current assets by locations of physical assets or the asset holding companies are as follows:

	PRC		US		UK		Canada		Other countries		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	500,214	355,118	535,341	558,463	809,073	685,227	415,021	396,203	741,604	583,311	3,001,253	2,578,322

Included in revenue derived from the PRC was HK\$245,905,000 (2018: HK\$250,243,000) which was generated in Hong Kong.

For the year ended 31 December 2019, revenue from three (2018: three) customers in the garment manufacturing segment each accounted for more than 10% of the Group's total revenue and they represented approximately 17%, 11% and 11% (2018: 16%, 15% and 13%) of the total revenue respectively. Details of concentrations of credit risk arising from customers are set out in Note 34.1(b).

	PRC		Luxembourg		Thailand		Other countries		Total	
	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))	As at 31 December 2019	As at 31 December 2018 (Note (i))
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets (Note (iii))	734,887	630,541	171,344	175,919	75,116	70,467	153,904	63,257	1,135,251	940,184

Included in non-current assets located in the PRC was HK\$312,934,000 (2018: HK\$324,881,000) which was related to assets located in Hong Kong.

Notes:

- (i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).
- (ii) Unallocated assets and liabilities mainly include centrally-managed cash and bank balances, bank borrowings and property, plant and equipment for corporate purposes.
- (iii) Non-current assets exclude deferred tax assets, defined benefit plan assets and foreign forward exchange contracts.

## Notes to the Consolidated Financial Statements

### 5. Other Income and Other Net Gains

	2019 HK\$'000	2018 HK\$'000
Net gain on disposal of a subsidiary (Note (i))	10,914	–
Government subsidies (Note (ii))	1,508	1,120
Net loss on disposals of property, plant and equipment	(51)	(65)
Sundry income	4,730	2,375
	<b>17,101</b>	<b>3,430</b>

Notes:

- (i) During the year, the Group disposed of a wholly-owned subsidiary incorporated in the Philippines at a consideration of HK\$16,725,000, with a net gain of HK\$10,914,000 after net-off with transaction cost of HK\$3,355,000. Out of the total consideration of HK\$16,725,000, a retention money of HK\$1,520,000 will be received by the Group in 2024 while consideration of HK\$15,205,000 has been received in 2019. The subsidiary was the owner of a parcel of land and certain factory buildings in the Philippines, and had been inactive in early years.
- (ii) The Group received HK\$1,508,000 (2018: HK\$1,120,000) government subsidies from the PRC government during the year ended 31 December 2019. There were no unfulfilled conditions and other contingencies attached to the receipts of these government subsidies. There is no assurance that the Group will continue to receive such government subsidies in the future.

### 6. Profit/(loss) from Operations

Profit/(loss) from operations is stated after charging/(crediting):

	2019 HK\$'000	2018 HK\$'000
Amortisation of leasehold land and land use rights*	–	3,619
Amortisation of intangible assets	31,652	20,789
Depreciation charge		
– Own property, plant and equipment	62,280	57,624
– Right-of-use assets*	69,895	–
Variable lease payments not included in the measurement of lease liabilities	8,299	6,388
Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	10,819	–
Minimum lease payments for leases previously classified as operating leases under HKAS 17*	–	51,277
Provision for impairment of receivables, net	5,789	969
Impairment of property, plant and equipment	4,500	–
Cost of inventories (Note 19)	2,172,630	1,958,175
Employee benefit expenses (Note 11)	773,927	716,652
Net exchange loss/(gain)	5,550	(4,987)
Auditor's remuneration		
– Audit services	3,660	3,703
– Others	1,030	751

\* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

### 7. Finance Income/Finance Costs

	2019 HK\$'000	2018 (Note) HK\$'000
Finance income		
Interest income from bank deposits	1,347	3,467
Imputed interest on long-term rental deposits	583	107
	<b>1,930</b>	<b>3,574</b>
Finance costs		
Interest on licence fees payable	21,180	13,675
Interest on lease liabilities	8,807	–
Interest on bank borrowings	4,132	4,253
	<b>34,119</b>	<b>17,928</b>

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

### 8. Income Tax Charge

	2019 HK\$'000	2018 HK\$'000
Current income tax		
Hong Kong profits tax	(12,364)	(6,654)
Non-Hong Kong tax	(12,612)	(3,176)
Over-provisions of prior years	240	36
	<b>(24,736)</b>	<b>(9,794)</b>
Deferred tax	29	799
	<b>(24,707)</b>	<b>(8,995)</b>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% of the estimated assessable profits for the year, except one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rate regime (2018: 16.5%, except for one subsidiary of the Group under the two-tiered profits tax rate regime).

For this subsidiary, the first HK\$2,000,000 of assessable profits is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## Notes to the Consolidated Financial Statements

### 8. Income Tax Charge (Continued)

The reconciliation between tax charge and accounting loss at applicable tax rates as follows:

	2019 HK\$'000	2018 HK\$'000
Loss before taxation	(12,230)	(70,838)
Notional tax on loss before taxation calculated at the rates applicable to profits in the jurisdictions concerned	12,674	14,122
Withholding tax	235	(1,028)
Tax effect of non-taxable income	6,122	2,204
Tax effect of non-deductible expenses	(12,388)	(1,290)
Tax effect of previously unrecognised tax losses	9,511	12,156
Reversal of previously recognised temporary difference	(1,059)	(2,020)
Tax effect of tax losses not recognised	(40,042)	(33,175)
Over-provisions of prior years	240	36
Income tax charge	(24,707)	(8,995)

### 9. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

### 12. Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

Name	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonuses HK\$'000	Employer's contribution to retirement benefit schemes HK\$'000	2019	2018
					Total HK\$'000	Total HK\$'000
<b>Executive Director:</b>						
Mr. WANG Kin Chung, Peter	560	4,993	-	134	5,687	5,536
<b>Non-Executive Directors:</b>						
Ms. WANG KOO Yik Chun	91	764	-	-	855	835
Ms. MAK WANG Wing Yee, Winnie	219	-	-	-	219	207
Dr. WANG Shui Chung, Patrick	132	-	-	-	132	111
<b>Independent Non-Executive Directors:</b>						
Mr. LO Kai Yiu, Anthony	281	-	-	-	281	268
Mr. James Christopher KRALIK	186	-	-	-	186	206
Mr. Peter TAN	124	-	-	-	124	145
	1,593	5,757	-	134	7,484	7,308

### 10. Loss Per Share

#### (a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of the Company of HK\$38,829,000 (2018: HK\$80,455,000) by the weighted average number of 271,607,253 (2018: 271,607,253) ordinary shares in issue during the year.

#### (b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

During the years ended 31 December 2019 and 2018, the conversion of all potential ordinary shares outstanding would have an anti-dilutive effect on the loss per share. Hence, there was no dilutive effect on calculation of the diluted loss per share for the years ended 31 December 2019 and 2018.

### 11. Employee Benefit Expenses

	2019 HK\$'000	2018 HK\$'000
Directors' emoluments (Note 12)	7,484	7,308
Salaries, wages and other benefits	718,306	674,520
Retirement benefits		
– Defined contribution plans	35,831	32,043
– Defined benefit plans (Note 27(b))	3,756	725
– Long service payment liabilities (Note 27(c))	7,801	1,512
Share-based compensation expense		
– share options granted (Note 33)	749	544
Total employment expenses	773,927	716,652

## Notes to the Consolidated Financial Statements

### 13. Five Highest Paid Individuals

Of the five individuals with the highest emoluments, one (2018: one) is a director whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the other four (2018: four) individuals are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and other emoluments	10,188	9,046
Discretionary bonuses	1,570	2,774
Employer's contribution to retirement benefit schemes	357	354
	<b>12,115</b>	12,174

The emoluments of the four (2018: four) individuals with highest emoluments are within the following bands:

	2019	2018
HK\$2,500,001 – HK\$3,000,000	2	1
HK\$3,000,001 – HK\$3,500,000	1	3
HK\$3,500,001 – HK\$4,000,000	1	–

### 14. Property, Plant and Equipment

	Freehold land <sup>+</sup>	Buildings <sup>+</sup>	Plant and machinery	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Right-of-use assets (Note)	Construction-in-progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>								
As at 1 January 2018	59,576	447,899	258,259	309,138	21,815	–	1,341	1,098,028
Exchange difference	441	(15,682)	(4,793)	(9,894)	(290)	–	(65)	(30,283)
Additions	–	129	13,281	25,999	973	–	7,625	48,007
Reclassification	–	–	–	4,095	–	–	(4,095)	–
Disposals	–	–	(14,553)	(3,233)	(339)	–	–	(18,125)
As at 31 December 2018	60,017	432,346	252,194	326,105	22,159	–	4,806	1,097,627
Impact of initial adoption of HKFRS 16 (Note)	–	–	–	(155)	–	305,701	–	305,546
As at 1 January 2019	60,017	432,346	252,194	325,950	22,159	305,701	4,806	1,403,173
Exchange difference	4,092	917	4,202	(4,435)	(30)	(6,306)	(48)	(1,608)
Additions	–	151	11,292	75,173	980	135,122	28	222,746
Reclassification	–	–	(31)	4,104	–	–	(4,073)	–
Disposals	(2,067)	(7,254)	(8,555)	(18,126)	(835)	–	–	(36,837)
As at 31 December 2019	62,042	426,160	259,102	382,666	22,274	434,517	713	1,587,474
<b>Accumulated depreciation:</b>								
As at 1 January 2018	–	286,428	218,030	247,986	19,626	–	–	772,070
Exchange difference	–	(10,683)	(4,017)	(8,731)	(234)	–	–	(23,665)
Charge for the year	–	16,683	13,783	26,087	1,071	–	–	57,624
Written back on disposals	–	–	(14,435)	(2,753)	(177)	–	–	(17,365)
As at 31 December 2018	–	292,428	213,361	262,589	20,286	–	–	788,664
Impact of initial adoption of HKFRS 16 (Note)	–	–	–	(124)	–	33,285	–	33,161
As at 1 January 2019	–	292,428	213,361	262,465	20,286	33,285	–	821,825
Exchange difference	–	2,964	3,959	3,313	(35)	509	–	10,710
Charge for the year	–	14,469	13,664	33,193	954	69,895	–	132,175
Reclassification	–	–	(2)	2	–	–	–	–
Written back on disposals	–	(7,046)	(8,258)	(17,951)	(835)	–	–	(34,090)
Impairment	–	–	–	585	–	3,915	–	4,500
As at 31 December 2019	–	302,815	222,724	281,607	20,370	107,604	–	935,120
<b>Net book value:</b>								
As at 31 December 2019	62,042	123,345	36,378	101,059	1,904	326,913	713	652,354
As at 31 December 2018	60,017	139,918	38,833	63,516	1,873	–	4,806	308,963

<sup>+</sup> Freehold land is located in Thailand and the Philippines. The buildings are located in the PRC, Thailand, the Philippines and Vietnam.

Depreciation expense of HK\$26,594,000 (2018: HK\$20,167,000) is included in cost of sales, HK\$66,280,000 (2018: HK\$3,830,000) is included in selling and distribution expenses and HK\$39,301,000 (2018: HK\$33,627,000) is included in general and administrative expenses.



## Notes to the Consolidated Financial Statements

### 14. Property, Plant and Equipment (Continued)

Impairment loss of HK\$4,500,000 (2018: Nil) is charged to selling and distribution expenses in relation to property, plant and equipment of certain loss making retail stores in China and Hong Kong. The Group has plan to close these retail stores in China and as a result, the related property, plant and equipment were written down to their recoverable amounts of HK\$4,450,000. The recoverable amounts are determined based on value-in-use calculation. The discount rate adopted is 13%.

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See Note 2(c).

#### (a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

		31 December 2019	1 January 2019
	Note	HK\$'000	HK\$'000
Prepaid leasehold land and land use rights, with remaining lease term between 10 and 50 years	(i)	120,346	126,310
Properties leased for own use	(ii)	205,433	144,601
Plant, machinery and equipment	(iii)	1,134	1,474
		<b>326,913</b>	<b>272,385</b>

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	2018
	HK\$'000	(Note) HK\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Prepaid leasehold land and land use rights	<b>3,468</b>	3,619
Properties leased for own use	<b>66,087</b>	–
Plant, machinery and equipment	<b>340</b>	–
	<b>69,895</b>	3,619
Interest on lease liabilities (Note 7)	<b>8,807</b>	–
Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	<b>10,819</b>	–
Variable lease payments not included in the measurement of lease liabilities	<b>8,299</b>	6,388
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	51,277

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

During the year, additions to right-of-use assets were HK\$135,122,000. This amount is primarily related to the capitalised lease payments payable under new lease agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 37(c) and 29, respectively.

#### (i) Prepaid leasehold land and land use rights

The Group holds several interests in land and building for its garment manufacturing and brands business. The Group is the registered owner of these property interests, including the underlying land. Lump sum payments were made upfront to acquire these property interests and there are no ongoing payments to be made under the terms of the land lease.

#### (ii) Properties leased for own use

The Group has obtained the right to use other properties as its factories, retail stores and offices through lease agreements. The leases for the Group's factories in Southern Asian countries are typically under long term leases and except for the lease for the factory in Vietnam, the remaining lease terms of those leases are over 15 years at 31 December 2019. The lease terms of the Group's retail stores vary in accordance with the market practice in the relevant countries, and are ranging from one to ten years.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. Information regarding leases with material extension options is summarised below:

	Lease liabilities recognised (discounted) HK\$'000	Extension options not included in lease liabilities HK\$'000
Factories – Myanmar	45,835	Note (a)
Factories – PRC and other Southeast Asian countries	5,749	–
Offices and warehouses – PRC and Hong Kong	16,857	–
Offices and warehouses – Europe	11,216	–
Retail stores – PRC	99,958	–
Retail stores – Hong Kong	9,145	–
Retail stores – Europe	26,123	Note (b)

## Notes to the Consolidated Financial Statements

### 14. Property, Plant and Equipment (Continued)

Notes:

- (a) The lease for the Myanmar factory provides the Group options to renew the lease for another two consecutive terms of fifteen years at the market rates after the initial term of 30 years.
- (b) The lease of one of the retail stores in Europe provide the Group an option to extend the lease for a consecutive 5 years at the rates specified in the agreement. The undiscounted lease payments under the extension option not recognised in lease liabilities amount to HK\$8,986,000.

During the year ended 31 December 2019, the Group leased a number of retail stores which contain variable lease payment terms that are based on sales generated from the retail stores and minimum lease payment terms that are fixed. The variable payments are charged varying from 8% to 27% (2018: 7% to 27%) of the monthly gross income at the stores in excess of the base rents as determined in the respective lease agreements. These payment terms are common in retail stores in Hong Kong, the PRC and Europe where the Group operates. The amount of fixed and variable lease payments recognised in profit or loss for the year is summarised below:

	Fixed payments HK\$'000	Variable payments HK\$'000	Total payments HK\$'000
Retail stores – Hong Kong	6,655	–	6,655
Retail stores – PRC	46,781	8,299	55,080
Retail stores – Europe	2,049	–	2,049

At 31 December 2019, it is estimated that an increase in sales generated from these retail stores by 5% would have increased the lease payments by HK\$817,000.

#### (iii) Other leases

The Group leases certain office equipment under leases expiring from 3 to 4 years. None of the leases includes variable lease payments.

### 15. Leasehold Land and Land Use Rights

The balance represents prepaid lease payments on lease of lands outside Hong Kong with the tenure of 25 to 50 years. Upon initial adoption of HKFRS 16 at 1 January 2019, amount of HK\$126,310,000 was reclassified to “right-of-use assets” under “property, plant and equipment”.

### 16. Intangible Assets

	Goodwill HK\$'000	Licence rights (Note (i)) HK\$'000	Trademark (Note (ii)) HK\$'000	Customer relationship and others HK\$'000	Total HK\$'000
<b>Cost:</b>					
As at 1 January 2018	20,893	27,488	183,378	7,093	238,852
Additions	–	333,975	–	–	333,975
Derecognition	–	(26,155)	–	(6,900)	(33,055)
Exchange difference	–	(1,333)	(7,459)	150	(8,642)
As at 31 December 2018	20,893	333,975	175,919	343	531,130
As at 1 January 2019	20,893	333,975	175,919	343	531,130
Exchange difference	–	–	(4,575)	(9)	(4,584)
As at 31 December 2019	20,893	333,975	171,344	334	526,546
<b>Accumulated amortisation and impairment:</b>					
As at 1 January 2018	20,893	2,747	–	6,878	30,518
Derecognition	–	(5,182)	–	(6,900)	(12,082)
Amortisation	–	20,718	–	71	20,789
Exchange difference	–	(156)	–	156	–
As at 31 December 2018	20,893	18,127	–	205	39,225
As at 1 January 2019	20,893	18,127	–	205	39,225
Amortisation	–	31,585	–	67	31,652
Exchange difference	–	–	–	(5)	(5)
As at 31 December 2019	20,893	49,712	–	267	70,872
<b>Net book value:</b>					
As at 31 December 2019	–	284,263	171,344	67	455,674
As at 31 December 2018	–	315,848	175,919	138	491,905

Amortisation of HK\$31,585,000 (2018: HK\$20,718,000) is included in the selling and distribution expenses and HK\$67,000 (2018: HK\$71,000) is included in general and administrative expenses.

Notes:

#### (i) Licence rights

Licence rights of brands represent capitalisation of the minimum contractual obligation payable to brand licensors at the time of inception. They are recognised based on discount rates approximately 6.3% to 6.9% per annum at the dates of inception.

During the year ended 31 December 2018, the Group re-entered into a 10 years (with conditional renewal options for additional 20 years) licence agreement for the sourcing and distribution of Nautica branded products in Mainland China and Hong Kong. In addition, during the year ended 31 December 2018, the Group also entered into 10 years (with conditional renewal options for additional 20 years) licence agreement to distribute “Spyder”, an American sports brand products mainly in Mainland China and Hong Kong. The relating minimum contractual obligation payable to the licensors is recognised in licence fees payable.

During the year ended 31 December 2018, licence rights of HK\$26,155,000 and related accumulated amortisation of HK\$5,182,000 were derecognised after the Group’s decision to early terminate the licence agreement for the distribution of “ACBC” branded products on 4 January 2019.

## Notes to the Consolidated Financial Statements

### 16. Intangible Assets (Continued)

#### (ii) Trademark

It represents "C.P. Company" trademark which is regarded as having an indefinite useful life and there is no foreseeable limit to the period over which it is expected to generate cash flows for the Group as it is expected that the value will not be reduced through usage.

#### Impairment test for CGU containing trademark

The trademark is allocated to a CGU under brands business segment. The recoverable amount of the CGU was based on value in use calculations. These calculations use cash flow projections based on latest forecasts covering a 6-year (2018: 7-year) period at underlying growth rates that exceed historical rates to reflect the start-up nature of the business. Cash flows beyond the 6-year (2018: 7-year) period are extrapolated using the estimated rate of 2% (2018: 2%). The following key assumptions have been used for the value in use calculations.

#### Discount rate

The cash flows are discounted using a risk-adjusted pre-tax discount rate of 20.3% (2018: 20.4%) which was derived from the post-tax discount rate of 17% (2018: 17%).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount measurement is based would not cause the carrying amount to exceed its recoverable amount.

### 18. Interests in an Associate

Particulars of the associate, which is an unlisted corporate entity, as at 31 December 2019 and 2018 are as follows:

Name of associate	Place of incorporation/ establishment	% interest held by a subsidiary	Nature of the relationship	Measurement method
MAC International Sarl	Morocco	50%	Note	Equity

Note:

MAC International Sarl is a private company which is inactive and under liquidation during the years ended 31 December 2019 and 2018. There is no quoted market price available for the shares of MAC International Sarl. There are no contingent liabilities relating to the Group's interest in an associate. The associate does not have a significant impact on the Group's results of operations and financial position in 2019 and 2018.

### 19. Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2019 HK\$'000	2018 HK\$'000
Raw materials	79,980	93,776
Work-in-progress	130,651	151,736
Finished goods	187,503	138,269
Goods in transit	15,840	19,158
	<b>413,974</b>	402,939

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 HK\$'000	2018 HK\$'000
Carrying amount of inventories sold	2,165,174	1,928,312
Write down of inventories (Note 4)	18,755	36,471
Reversal of write-down of inventories (Note 4)	(11,299)	(6,608)
	<b>2,172,630</b>	1,958,175

The reversal of write-down of inventories made in prior years was the result of use of written-down raw materials in the production process and sales of written-down finished goods.

### 17. Other Long-Term Assets

	2019 HK\$'000	2018 HK\$'000
Advance to an employee (Note 36(b)(iii))	3,179	3,887
Long-term rental, utilities and other deposits	18,932	5,469
Club debentures	3,650	3,650
Other long-term assets	1,462	–
	<b>27,223</b>	13,006

### 20. Accounts Receivable and Bills Receivable

As of the end of the reporting period, the ageing of accounts receivable and bills receivable based on invoice date is as follows:

	2019 HK\$'000	2018 HK\$'000
Less than 3 months	342,757	295,927
3 months to 6 months	9,948	1,682
Over 6 months	7,199	1,790
	<b>359,904</b>	299,399
Less: Loss allowance	(7,199)	(1,790)
	<b>352,705</b>	297,609

The majority of accounts receivable are with customers having an appropriate credit history and are on open account. The Group grants its customers credit terms mainly ranging from 30 to 60 days. All of the accounts receivable and bills receivable are expected to be recovered within one year.

The carrying amounts of the accounts receivable and bills receivable approximate their fair values. The maximum exposure to credit risk is the fair value of the above receivables. The Group does not hold any collateral as security. Further details on the Group's credit policy and credit risk arising from accounts receivable and bills receivable are set out in Note 34.1(b).

## Notes to the Consolidated Financial Statements

### 20. Accounts Receivable and Bills Receivable

(Continued)

The carrying amounts of accounts receivable and bills receivable are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
United States dollars	222,611	236,603
Renminbi	77,422	24,086
Euro	40,941	32,245
Pound Sterling	6,623	–
Others	5,108	4,675
	<b>352,705</b>	297,609

### 21. Forward Foreign Exchange Contracts

	2019 HK\$'000	2018 HK\$'000
Cash flow hedges ( <i>Note 34.1(a)(i)(A)</i> )		
Included in:		
– Non-current assets	3	964
– Current assets	516	449
	<b>519</b>	1,413
Included in:		
– Non-current liabilities	1,661	5,178
– Current liabilities	7,344	8,350
	<b>9,005</b>	13,528

The maximum exposure to credit risk is the fair value as stated above of the forward foreign exchange contracts under current and non-current assets in the consolidated statement of financial position. The outstanding forward foreign exchange contracts with maturity dates within one year are classified as current assets and liabilities, while those with maturity dates more than one year are classified as non-current assets and liabilities. The financial risk management on fair value estimation is set out in Note 34.3.

#### Net investment hedge

During the period from March 2008 to March 2010, the Group entered into forward foreign exchange contracts to hedge against its net investment in a subsidiary group in the UK. Pursuant to the Group's hedging strategy, the Group ceased hedging the subsidiary group from March 2010. The cumulative gains and losses of the forward foreign exchange contracts which were recognised in the translation reserve when the hedge was effective, shall remain in the translation reserve and are to be recognised in the consolidated statement of profit or loss when the foreign subsidiary group is disposed.

### 22. Prepayments and Other Receivables

	2019 HK\$'000	2018 HK\$'000
Advance payments for purchases of inventories	12,078	12,173
Rental deposits	10,903	11,104
Value added tax and custom duties recoverable	28,084	29,264
Prepayments and other receivables	25,481	21,796
	<b>76,546</b>	74,337

Note:

The carrying amounts of other receivables approximate their fair values. The maximum exposure to credit risk is the fair value of the above items. The Group does not hold any collateral as security on prepayments and other receivables. All of the receivables are expected to be recovered or recognised as expense within one year.

### 23. Cash and Bank Balances

	2019 HK\$'000	2018 HK\$'000
Short-term bank deposits	560	342
Cash at bank and on hand	250,384	262,344
Cash and cash equivalents in the consolidated cash flow statement	250,944	262,686
Bank structured deposits ( <i>Note (i)</i> )	–	27,888
Pledged bank deposits ( <i>Note (ii)</i> )	34,419	31,318
Cash and bank balances in the consolidated statement of financial position	<b>285,363</b>	321,892

Notes:

- (i) Bank structured deposits are principal protected hybrid instruments that include a non-derivative Renminbi deposits host contract and an embedded derivative. The embedded derivative causes the cash flows that otherwise would be required by the contract to be modified according to the movement of a foreign exchange rate.

Because the contractual cash flows of structured deposits do not represent solely the payments of principal and interest on the principal amount outstanding, bank structured deposits are classified and measured as FVPL under HKFRS 9. At the date of inception of the contract and at 31 December 2018, the carrying amount of the bank structured deposit was approximately its fair value.

- (ii) Bank deposits of HK\$34,419,000 (2018: HK\$31,318,000) are pledged to secure bank guarantee facilities granted to the Group.

## Notes to the Consolidated Financial Statements

### 23. Cash and Bank Balances (Continued)

The carrying amounts of cash and bank balances are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
United States dollars	154,353	194,047
Renminbi	40,875	66,454
Hong Kong dollars	22,837	22,893
Euro	20,695	12,021
Pound Sterling	18,202	5,517
Others	28,401	20,960
<b>Total</b>	<b>285,363</b>	<b>321,892</b>

The Group's cash and bank balances denominated in Renminbi were deposited with banks in the PRC and Hong Kong. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

### 24. Accounts Payable and Bills Payable

As of the end of the reporting period, the ageing of accounts payable and bills payable based on invoice date is as follows:

	2019 HK\$'000	2018 HK\$'000
Less than 3 months	167,484	147,661
3 months to 6 months	2,372	11,895
Over 6 months	9,254	6,623
<b>Total</b>	<b>179,110</b>	<b>166,179</b>

The majority of payment terms with suppliers are within 60 days. All of the accounts payable and bills payable are expected to be settled within one year or are on demand.

The carrying amounts of accounts payable and bills payable approximate their fair values.

The carrying amounts of accounts payable and bills payable are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
United States dollars	77,570	66,818
Euro	53,894	44,240
Hong Kong dollars	16,024	33,168
Renminbi	29,195	18,398
Others	2,427	3,555
<b>Total</b>	<b>179,110</b>	<b>166,179</b>

### 25. Accruals and Other Payables and Contract Liabilities

#### (a) Contract liabilities

When the Group receives advances before the delivery of goods, this will give rise to contract liabilities upon advances receipt, until the revenue recognised on the sale of goods. The payment arrangement is negotiated on a case by case basis with customers.

All of the contract liabilities of HK\$1,188,000 as at 31 December 2019 (2018: HK\$4,902,000) are expected to be settled within one year.

#### (b) Accruals and other payables

Accruals and other payables mainly consist of accrued employee benefit expenses and other operating expenses. All of the accruals and other payables are expected to be settled within one year.

On the date of transition to HKFRS 16, accrued lease payments of HK\$1,794,000 previously included in "Accruals and other payables" were adjusted to right-of-use assets recognised at 1 January 2019. See Note 2(c).

### 26. Bank Borrowings

As at 31 December 2019 and 2018, the Group's bank borrowings were unsecured and covered by corporate guarantees given by the Company. The bank borrowings were due for repayment within three months at the end of the reporting period. Bank borrowings are mainly denominated in Renminbi and United States dollars and bore interest at fixed rates. The interest rates of the bank borrowings ranged from 3.0% to 5.0% per annum (2018: 3.4% to 4.1% per annum). The carrying amounts of bank borrowings are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
United States dollars	30,442	71,106
Euro	–	2,686
RMB	34,098	–
<b>Total</b>	<b>64,540</b>	<b>73,792</b>

The fair value of the Group's bank borrowings equal their carrying amount, as the impact of discounting is not significant due to their short-term maturity.

## Notes to the Consolidated Financial Statements

### 27. Retirement Benefits and Other Post Retirement Obligations

	2019 HK\$'000	2018 HK\$'000
Defined benefit plans (Note (b))	(1,249)	(6,169)
Long service payment liabilities (Note (c))	36,222	24,725
	<b>34,973</b>	18,556
Included in non-current assets	(8,704)	(7,930)
Included in non-current liabilities	43,677	26,486
	<b>34,973</b>	18,556

Notes:

#### (a) Defined contribution plans

The Group operates/participates in the following defined contribution plans:

- A defined contribution scheme for employees in Hong Kong, under which the Group and its employee each contribute 5% of the employee's salaries. The forfeited contributions made by the Group and the related accrued interest are used to reduce the Group's future employer contribution.
- The Mandatory Provident Fund Scheme for employees in Hong Kong, under which the Group and its employee each makes monthly contribution to the scheme at 5% of the qualifying earnings of the employee, subject to a cap of monthly relevant income of HK\$30,000.
- The Group's subsidiaries in the Mainland China contribute 10% to 22% of the basic salaries of their employees to retirement schemes operated by municipal governments. Under the schemes, the employees also contribute 8% of their basic salaries.
- The Group's subsidiaries in Thailand operate defined contribution plans, under which the Group generally contributes 5% of participating employees' salaries and the employees contribute 5% of their salaries.
- From 1 July 2005, the Group's subsidiaries in Taiwan operate defined contribution plans pursuant to the Labour Pension Act as a choice available to their employees. Under the plans, the Group generally contributes 6% of the participating employees' salaries to their personal accounts kept by the Labour Insurance Bureau on a monthly basis. Contributions from employees are on a discretionary basis.
- Contributions to the defined contribution schemes of other countries are at various funding rates that are in accordance with the local practice and regulations. Contributions relating to the defined contribution schemes are charged to profit or loss as incurred.

Contribution to the above defined contribution plans other than (i) vest immediately. Other than the mandatory contributions made by the Group under the respective defined contribution plans, the Group has no further obligations for the actual pension payments or any post retirement benefits.

#### (b) Defined benefit plans

The Group operates/participates in the following defined benefit plans:

- A defined benefit retirement plan is operated by the Group's subsidiaries in the Philippines. The Group bears the full cost of all plan benefits and the plan assets are invested mainly in a fixed income fund through third party trustee. The benefits are based on a prescribed percentage of the final monthly basic salary and the period of credited services.
- A defined benefit retirement scheme is operated by the Group's subsidiaries in Taiwan. The Group bears the full cost of all benefits and the assets for the benefits are invested through the Bank of Taiwan in a balanced portfolio of cash, fixed income and equity investments. The benefits are based on the average monthly salary for the six months immediately preceding the date of cessation of service with the Group.
- Our subsidiary in Swiss participates in a defined benefit plan for providing post-employment benefits to its staff which covers old-age pension, death-in-service and disability benefits as required by law. The Swiss subsidiary is affiliated to the Swiss Life Collective BVG Foundation, based in Zurich for the provision of such benefits. The assets of the plan are held separately within the foundation. Plan beneficiaries are insured against the financial consequences of old age, death and disability. The pension upon retirement is based on the balance of retirement savings capital and applicable conversion rates. The retirement savings capital results from the contributions by both employer and employees and carries interest thereon. The contributions are determined as a percentage of current insured salary and at least 50% of the contributions shall be paid by the employer. The Group recognised the defined benefit plan for the Swiss subsidiary from 2019.

The latest actuarial valuations of the above plans were performed by BMI Appraisals Limited and Swiss Life Pension Services AG, independent professional valuation firms, as at 31 December 2019, using the projected unit credit method. Based on the actuarial reports, the aggregate market value of the plan assets as at 31 December 2019 was HK\$30,108,000 (2018: HK\$22,280,000), representing approximately 104% (2018: 138%) of the actuarial accrued liabilities at that date.

The amounts recognised in the consolidated statement of financial position are as follows:

	2019 HK\$'000	2018 HK\$'000
Present value of funded obligations	28,859	16,111
Fair value of plan assets	(30,108)	(22,280)
Net defined benefit plan assets	<b>(1,249)</b>	(6,169)

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amount recoverable in the next twelve months, as future contributions will also relate to future services rendered and future change in actuarial assumptions and market conditions.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2019 HK\$'000	2018 HK\$'000
Current service cost	1,614	781
Net interest expense/(income) on net defined benefit plan assets	55	(56)
Past service cost (Note 27(b)(iii))	2,087	–
Total, included in employee benefit expenses	<b>3,756</b>	725

## Notes to the Consolidated Financial Statements

### 27. Retirement Benefits and Other Post Retirement Obligations (Continued)

Changes in the present value of the defined benefit obligations are as follows:

	2019 HK\$'000	2018 HK\$'000
As at 1 January	16,111	14,969
Current service cost	1,614	781
Employee contribution	1,404	–
Past service cost	5,993	–
Interest expense	642	544
Remeasurement – actuarial loss/(gain) arising from changes in demographic assumptions	2,119	(103)
Remeasurement – actuarial loss arising from changes in financial assumptions	1,547	608
Exchange differences	568	(605)
Benefits paid by the Group	(30)	(24)
Benefits paid by the plans	(1,109)	(59)
As at 31 December	28,859	16,111

Changes in the fair value of plan assets are as follows:

	2019 HK\$'000	2018 HK\$'000
As at 1 January	22,280	22,453
Interest income	587	600
Past service benefit	3,906	–
Employer contribution	1,558	–
Employee contribution	1,404	–
Remeasurement – return on plan assets, excluding amounts included in interest income	857	103
Exchange differences	625	(817)
Benefits paid by the plan	(1,109)	(59)
As at 31 December	30,108	22,280

The sensitivity of the defined benefit obligations to changes as a result of the changes in the significant actuarial assumptions is:

Principal assumption	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 6.0% (2018: Decrease by 4.5%)	Increase by 6.8% (2018: Increase by 4.6%)
Salary growth rate	0.50%	Increase by 3.0% (2018: Increase by 4.6%)	Decrease by 3.0% (2018: Decrease by 4.3%)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate	1% to 5%	1% to 6%
Expected rate of future salary increase	1% to 5%	3% to 5%

At 31 December 2019 and 2018, the Group expects to contribute HK\$948,000 to its defined benefit plans in 2019 (2018: HK\$ Nil). The weighted average duration of the defined benefit obligations is 13 years (2018: 9 years).

The major categories of plan assets as a percentage of total plan assets are as follows:

	2019	2018
Deposits with financial institutions	8.4%	12.9%
Bonds	35.3%	37.4%
Stocks	16.5%	22.9%
Other assets	39.8%	26.8%
Represented by:		
– Assets have a quoted market price	52%	60%
– Assets do not have a quoted market price	48%	40%

The most significant risk facing the defined benefit plans of the Group is market risk including price risk, interest rate risk and foreign exchange risk. Market risk is managed principally through diversification of investments by third party trustees. The long-term strategic asset allocations would also be monitored by third party trustees periodically taking into account of the liability profile of the plans.

## Notes to the Consolidated Financial Statements

### 27. Retirement Benefits and Other Post Retirement Obligations (Continued)

#### (c) Long service payment liabilities

(i) Under the Hong Kong Employment Ordinance, the Group is obliged in certain circumstances to make long service payments on cessation of employment to certain employees in Hong Kong who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary (or, at the option of the employee, the average salary for the 12 months prior to cessation of employment, subject to an average monthly salary of HK\$22,500) and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme.

(ii) Under the Labor Protection Act of Thailand, the Group is obliged to make severance pay on cessation of employment to the employees who have been regularly employed by the Group for more than 120 days. The amount payable is dependent on the employee's final salary and years of service. The Group does not set aside any asset for the obligation arising from severance pay.

On 13 December 2018, the National Legislative Assembly of Thailand has passed a bill amending the Labor Protection Act to include a requirement that an employee who is terminated after having been employed by the same employer for an uninterrupted period of twenty years or more, receives severance payment of 400 days of wages at the most recent rate. The Group reflected the effect of such change by recognising past service costs in May 2019 when the amendment was published in the Royal Gazette and became effective.

(iii) Under the labour law of Vietnam, the Group is obliged to make severance pay on cessation of employment to the employees who have been employed by the Group for more than 12 months. The amount payable is dependent on the employee's average salary for the six months prior to the termination and years of service up to 31 December 2008. The Group does not set aside any asset for the obligation arising from severance pay.

The latest actuarial valuations of the Group's major obligations of long service payment liabilities as at 31 December 2019 were carried out by BMI Appraisals Limited, an independent professional valuation firm, using the projected unit credit method.

	2019 HK\$'000	2018 HK\$'000
Liability in the statement of financial position:		
– Present value of unfunded obligations	<b>36,222</b>	24,725

The sensitivity of the present value of unfunded obligations to changes as a result of the changes in the significant assumptions is:

Principal assumption	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 7.1% (2018: Decrease by 4.6%)	Increase by 3.3% (2018: Increase by 5.0%)
Salary growth rate	0.50%	Increase by 4.0% (2018: Increase by 4.9%)	Decrease by 3.7% (2018: Decrease by 4.6%)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2019 HK\$'000	2018 HK\$'000
Current services cost	<b>1,015</b>	759
Past service cost on plan amendment (Note 27(c)(iii))	<b>6,029</b>	–
Interest cost	<b>757</b>	753
Total, included in employee benefit expenses	<b>7,801</b>	1,512

Movement in the present value of unfunded obligations:

	2019 HK\$'000	2018 HK\$'000
As at 1 January	<b>24,725</b>	24,215
Current service cost	<b>1,015</b>	759
Interest expense	<b>757</b>	753
Benefit paid by the Group	<b>(642)</b>	(373)
Remeasurement – actuarial gain arising from changes in demographic assumptions	<b>(5,666)</b>	(797)
Remeasurement – actuarial loss/(gain) arising from changes in financial assumptions	<b>8,275</b>	(4)
Exchange difference	<b>1,729</b>	172
Past service cost on plan amendment	<b>6,029</b>	–
As at 31 December	<b>36,222</b>	24,725

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate	<b>2% to 4%</b>	2% to 5%
Expected rate of future salary increase	<b>3% to 5%</b>	3% to 5%

The weighted average duration of the long service payment liabilities is 13 years (2018: 12 years).



## Notes to the Consolidated Financial Statements

### 28. Licence Fees Payable

	2019 HK\$'000	2018 HK\$'000
Within 1 year	27,991	16,514
More than 1 year but less than 2 years	44,096	27,876
More than 2 years but less than 5 years	150,003	142,010
More than 5 years	226,773	282,083
	<b>448,863</b>	468,483
Less: Imputed interest on licence fees payable	<b>(119,168)</b>	(141,421)
Present value	<b>329,695</b>	327,062
Less: Current portion included in accruals and other payables	<b>(27,991)</b>	(16,514)
Non-current portion	<b>301,704</b>	310,548

Note:

Licence fees payable represented the present value of contractual obligations at initial recognition. It was recognised based on discount rates of 6.3% to 6.9% per annum at the date of inception of such obligations (Note 16(i)). Licence fee payable is subsequently stated at amortised cost using the effective interest method.

The carrying amounts of licence fees payable are denominated in USD.

The estimated fair value of the licence fees payable as at 31 December 2019 and 2018 was approximate to the carrying value.

### 29. Lease Liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	70,286	78,348	32,109	36,057
After 1 year but within 2 years	47,391	54,926	29,982	36,817
After 2 years but within 5 years	40,139	49,974	36,557	45,728
After 5 years	57,067	86,056	49,221	79,753
	<b>144,597</b>	<b>190,956</b>	115,760	162,298
	<b>214,883</b>	<b>269,304</b>	147,869	198,355
Less: total future interest expenses		<b>(54,421)</b>		(50,486)
Present value of lease liabilities		<b>214,883</b>		147,869

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated and no lease liabilities was recorded. Further details on the impact of the transition to HKFRS 16 are set out in Note 2(c).

## Notes to the Consolidated Financial Statements

### 30. Deferred Tax Assets/Liabilities

(a) The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balance with the same tax jurisdiction, are as follows:

#### Deferred tax assets

	Provisions		Depreciation allowances less than the related depreciation		Depreciation charge of right-of-use assets		Tax losses		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January	6,342	5,275	3,442	3,524	-	-	2,167	1,505	11,951	10,304
Exchange differences	581	116	32	2	-	-	-	-	613	118
Credited/(charged) to profit or loss	1,436	1,138	(301)	(84)	284	-	(2,064)	662	(645)	1,716
Credited/(charged) to other comprehensive income	508	(187)	-	-	-	-	-	-	508	(187)
As at 31 December	8,867	6,342	3,173	3,442	284	-	103	2,167	12,427	11,951

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2019, the Group did not recognise deferred tax assets of HK\$137,495,000 (2018: HK\$107,309,000) for tax losses that can be carried forward against future taxable income. Cumulative tax losses of HK\$96,918,000 (2018: HK\$128,782,000) can be carried forward indefinitely; cumulative tax losses of HK\$366,460,000 (2018: HK\$225,029,000) will expire within the next five years; and cumulative tax losses of HK\$88,821,000 (2018: HK\$117,005,000) will expire after more than 5 years.

#### Deferred tax liabilities

	Depreciation allowances in excess of the related depreciation		Withholding tax for distribution of retained earnings of the PRC and overseas subsidiaries		Fair value adjustments on business combination		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January	528	512	21,543	20,691	9,798	9,653	31,869	30,856
Exchange differences	-	-	681	5	685	91	1,366	96
(Credited)/charged to profit or loss	(88)	16	(574)	847	58	54	(604)	917
Credited to other comprehensive income	-	-	(182)	-	-	-	(182)	-
As at 31 December	440	528	21,468	21,543	10,541	9,798	32,449	31,869

(b) Reconciliation to the consolidated statement of financial position:

	2019	2018
	HK\$'000	HK\$'000
Net deferred tax asset recognised in the consolidated statement of financial position	3,490	5,230
Net deferred tax liability recognised in the consolidated statement of financial position	(23,512)	(25,148)
	(20,022)	(19,918)

## Notes to the Consolidated Financial Statements

### 31. Share Capital

	2019 HK\$'000	2018 HK\$'000
Authorised: 500,000,000 (2018: 500,000,000) shares of HK\$0.10 each	<b>50,000</b>	50,000

Issued and fully paid ordinary share capital:

	2019		2018	
	Number of shares	HK\$'000	Number of shares	HK\$'000
As at 1 January and 31 December	<b>271,607,253</b>	<b>27,161</b>	271,607,253	27,161

### 32. Reserves

The reconciliation between the opening and closing balances of each components of the Group's consolidated equity is set out below:

	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Remeasure- ments reserve HK\$'000	Hedging reserve HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 January 2019	14,449	113,373	97,612	61,338	1,882	-	(12,115)	265,630	117,413	492,927	1,152,509
<b>Comprehensive income</b>											
Loss for the year	-	-	-	-	-	-	-	-	-	(38,829)	(38,829)
<b>Other comprehensive income</b>											
Net fair value gains											
on cash flow hedges	-	-	-	-	-	-	3,629	-	-	-	3,629
Remeasurements of defined benefit plans and long service payment liabilities	-	-	-	-	-	(5,418)	-	-	-	-	(5,418)
Deferred tax credited to other comprehensive income (Note 30)	-	-	-	-	-	690	-	-	-	-	690
Realisation upon disposal of a subsidiary	-	-	-	(390)	-	-	-	-	-	-	(390)
Currency translation differences	-	-	-	(3,063)	-	-	-	-	-	-	(3,063)
<b>Total comprehensive income</b>	-	-	-	(3,453)	-	(4,728)	3,629	-	-	(38,829)	(43,381)
<b>Transactions with owners</b>											
Transfer	-	2,719	-	-	-	4,728	-	-	-	(7,447)	-
Share option scheme – value of employee services	-	-	-	-	749	-	-	-	-	-	749
Share options granted to employee lapsed	-	-	-	-	(295)	-	-	-	-	295	-
<b>Total transactions with owners</b>	-	2,719	-	-	454	4,728	-	-	-	(7,152)	749
Balance at 31 December 2019	14,449	116,092	97,612	57,885	2,336	-	(8,486)	265,630	117,413	446,946	1,109,877

## Notes to the Consolidated Financial Statements

### 32. Reserves (Continued)

	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Remeasurements reserve HK\$'000	Hedging reserve HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 January 2018	14,449	113,373	97,612	93,784	1,658	-	(6,344)	265,630	117,413	571,300	1,268,875
Impact on initial application of HKFRS 9	-	-	-	-	-	-	-	-	-	1,550	1,550
<b>Adjusted balance at 1 January 2018</b>	14,449	113,373	97,612	93,784	1,658	-	(6,344)	265,630	117,413	572,850	1,270,425
<b>Comprehensive income</b>											
Loss for the year	-	-	-	-	-	-	-	-	-	(80,455)	(80,455)
<b>Other comprehensive income</b>											
Net fair value gains											
on cash flow hedges	-	-	-	-	-	-	(5,771)	-	-	-	(5,771)
Remeasurements of defined benefit plans and long service payment liabilities	-	-	-	-	-	399	-	-	-	-	399
Deferred tax charged to other comprehensive income (Note 30)	-	-	-	-	-	(187)	-	-	-	-	(187)
Currency translation differences	-	-	-	(32,446)	-	-	-	-	-	-	(32,446)
<b>Total comprehensive income</b>	-	-	-	(32,446)	-	212	(5,771)	-	-	(80,455)	(118,460)
<b>Transactions with owners</b>											
Transfer	-	-	-	-	-	(212)	-	-	-	212	-
Share option scheme											
- value of employee services	-	-	-	-	544	-	-	-	-	-	544
Share options granted to employee lapsed	-	-	-	-	(320)	-	-	-	-	320	-
<b>Total transactions with owners</b>	-	-	-	-	224	(212)	-	-	-	532	544
Balance at 31 December 2018	14,449	113,373	97,612	61,338	1,882	-	(12,115)	265,630	117,413	492,927	1,152,509

Note:

The Group including the Company, has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See Notes 2(c) and 38.

## Notes to the Consolidated Financial Statements

### 32. Reserves (Continued)

#### (a) Share premium

The application of share premium account is governed by the Company's Bye-Laws and the Bermuda Companies Act 1981.

#### (b) Capital reserve

Capital reserve mainly relates to the amount transferred from retained earnings in connection with a declaration of stock dividend by a subsidiary during the years ended 31 December 2000 and 2015.

#### (c) Statutory reserve and general reserve

Subsidiaries incorporated in Taiwan are required to set aside 10% of their net profit each year to reserve, according to Company Law in Taiwan. This appropriation is made in the following year until the accumulated reserve equals the paid-in capital. Such reserve can be used to offset a deficit or, when it has reached 50% of the paid-in capital, up to 50% thereof may be transferred to capital. The amount set aside is included under statutory reserve. During the year ended 31 December 2019, subsidiaries in Taiwan have transferred HK\$Nil (2018: HK\$ Nil) to statutory reserves.

The laws and regulations in the Mainland China require wholly foreign owned enterprises established in the Mainland China to provide for statutory reserves which are appropriated from net profit, based on profit reported in the statutory accounts. Certain subsidiaries in the Mainland China are required to allocate at least 10% of their after-tax profit to statutory reserves until the reserves have reached 50% of their registered capital. Statutory reserves can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 December 2019, subsidiaries in the Mainland China have transferred HK\$Nil (2018: HK\$Nil) to statutory reserves.

General reserve mainly relates to the profit set aside by the Company according to the Company's Bye-Laws.

#### (d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Notes 2(f) and 2(n)(ii).

#### (e) Share option reserve

Share option reserve comprises the fair value at the grant date of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based compensation in Note 2(q)(iii).

#### (f) Remeasurements reserve

Remeasurements reserve is dealt with in accordance with the accounting policy adopted for the remeasurements of the net defined benefit liability as set out in Note 2(q)(ii).

#### (g) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in Note 2(n)(i).

#### (h) Contributed surplus

Contributed surplus represents the excess in value of shares acquired in consideration for the issue of the Company's shares over the nominal value of those shares issued. Under the Bermuda Companies Act 1981, contributed surplus is distributable.

### 33. Share Option Schemes

The 2007 Share Option Scheme was approved to be terminated at the annual general meeting of the Company on 6 June 2016. Upon termination, no further share options can be offered under the 2007 Share Option Scheme but all outstanding share options granted thereunder shall continue to be valid and exercisable in accordance with the terms of the 2007 Share Option Scheme. The 2016 Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting held on 6 June 2016. Details of the 2007 Share Option Scheme and 2016 Share Option Scheme are set out in the "Report of the Directors" section of this Annual Report.

Under the 2007 Share Option Scheme (before termination) and the 2016 Share Option Scheme, share options may be granted from time to time as determined by the Board, to directors and employees of the Group. The grantee is required to pay HK\$1.00 upon acceptance of the options. The subscription price for the shares of the Company, which are the subject of the options, shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price and timing for the exercise of the option will be determined by the Board at the time the option is offered. The options may only be exercised if the grantee remains a director or an employee of the Group. The Group has no legal or constructive obligations to repurchase or settle these options in cash.

## Notes to the Consolidated Financial Statements

### 33. Share Option Schemes (Continued)

The share options outstanding under the 2007 Share Option Scheme as at the end of the year have the following vesting and expiry dates:

Date of grant	Participant	Number of share options		Exercise price per share	Exercisable period
		At 31 December 2019	At 31 December 2018		
9 June 2014	Employees (in aggregate)	–	106,000	HK\$3.10	9 June 2014 – 8 June 2019
		–	106,000	HK\$3.10	9 June 2015 – 8 June 2019
		–	106,000	HK\$3.10	9 June 2016 – 8 June 2019
		–	106,000	HK\$3.10	9 June 2017 – 8 June 2019
8 June 2015	Employees (in aggregate)	<b>135,000</b>	135,000	HK\$2.97	8 June 2015 – 7 June 2020
		<b>135,000</b>	135,000	HK\$2.97	8 June 2016 – 7 June 2020
		<b>135,000</b>	135,000	HK\$2.97	8 June 2017 – 7 June 2020
		<b>135,000</b>	135,000	HK\$2.97	8 June 2018 – 7 June 2020
9 May 2016	Employees (in aggregate)	<b>141,000</b>	141,000	HK\$2.28	9 May 2016 – 8 May 2021
		<b>141,000</b>	141,000	HK\$2.28	9 May 2017 – 8 May 2021
		<b>141,000</b>	141,000	HK\$2.28	9 May 2018 – 8 May 2021
		<b>141,000</b>	141,000	HK\$2.28	9 May 2019 – 8 May 2021
Total		<b>1,104,000</b>	1,528,000		

The share options outstanding under the 2016 Share Option Scheme as at the end of the year have the following vesting and expiry dates:

Date of grant	Participant	Number of share options		Exercise price per share	Exercisable period
		At 31 December 2019	At 31 December 2018		
5 June 2017	Employees (in aggregate)	<b>239,000</b>	239,000	HK\$1.68	5 June 2017 – 4 June 2022
		<b>239,000</b>	239,000	HK\$1.68	5 June 2018 – 4 June 2022
		<b>239,000</b>	239,000	HK\$1.68	5 June 2019 – 4 June 2022
		<b>239,000</b>	239,000	HK\$1.68	5 June 2020 – 4 June 2022
25 June 2018	Employees (in aggregate)	<b>264,000</b>	264,000	HK\$1.75	25 June 2018 – 24 June 2023
		<b>264,000</b>	264,000	HK\$1.75	25 June 2019 – 24 June 2023
		<b>264,000</b>	264,000	HK\$1.75	25 June 2020 – 24 June 2023
		<b>264,000</b>	264,000	HK\$1.75	25 June 2021 – 24 June 2023
3 June 2019	Employees (in aggregate)	<b>359,000</b>	–	HK\$1.58	3 June 2019 – 2 June 2024
		<b>359,000</b>	–	HK\$1.58	3 June 2020 – 2 June 2024
		<b>359,000</b>	–	HK\$1.58	3 June 2021 – 2 June 2024
		<b>359,000</b>	–	HK\$1.58	3 June 2022 – 2 June 2024
Total		<b>3,448,000</b>	2,012,000		

## Notes to the Consolidated Financial Statements

### 33. Share Option Schemes (Continued)

Detailed movements of the share options granted pursuant to the 2007 Share Option Scheme and the 2016 Share Option Scheme during the year ended 31 December 2019 are as follows:

	2019		2018	
	Average exercise price per share HK\$	Number of options	Average exercise price per share HK\$	Number of options
As at 1 January	2.16	3,540,000	3.83	2,900,000
Granted	1.58	1,436,000	1.75	1,056,000
Lapsed	3.10	(424,000)	3.92	(416,000)
As at 31 December	1.89	4,552,000	2.16	3,540,000
Exercisable at 31 December	2.06	2,708,000	2.20	2,129,000

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 2.93 years (2018: 2.91 years).

The fair value of options granted during the year of 2019 determined using the Trinomial valuation model was HK\$0.60 per option (2018: HK\$0.61 per option). The significant inputs into the model are as follows:

	Year in which share options granted	
	2019	2018
Share price at the grant date	HK\$1.58	HK\$1.75
Exercise price	HK\$1.58	HK\$1.75
Dividend yield	0%	0%
Volatility	42%	38%
Annual risk-free interest rate	1.49%	2%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 260-week historical volatilities of comparable companies within the industry. The aggregate fair value of the above options granted during the year amounted to HK\$834,000 (2018: HK\$645,000) is to be recognised as employee benefit expense over the vesting periods together with a corresponding increase in equity. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The total amount of employee benefit expense recognised in the consolidated statement of profit or loss for the year ended 31 December 2019 in relation to the 2007 Share Option Scheme and 2016 Share Option Scheme amounted to HK\$12,000 (2018: HK\$70,000) and HK\$737,000 (2018: HK\$474,000) respectively.

### 34. Financial Risk Management

#### 34.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, liquidity risk and credit risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

##### (a) Market risk

###### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions, recognised assets, liabilities and net investment in foreign operations are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is thus exposed to foreign exchange risk arising from various currency exposures. The Group manages significant foreign exchange risk against the respective subsidiaries' functional currencies arising from future commercial transactions, recognised assets, liabilities and net investment in foreign operations principally by means of forward foreign exchange contracts.

For the years ended 31 December 2019 and 2018, sales of goods were mainly denominated in United States dollars, Euro, Pound Sterling and Renminbi. The major currencies for purchases were United States dollars, Renminbi and Euro. In addition, entities within the Group (whose functional currencies include Renminbi, Philippine Pesos, Thai Bahts and Vietnam Dong) have monetary assets and liabilities denominated in Hong Kong dollars and United States dollars.

###### A. Hedges of foreign currency risk in forecast transactions

The Group has entered into forward foreign exchange contracts to hedge against foreign exchange exposures arising from United States dollars denominated processing income for factories in the PRC and Pound Sterling and Japanese Yen sales receipts of a European subsidiary. The Group designates the forward foreign exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a forward foreign exchange contract but instead designates the foreign forward exchange contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward foreign exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

- (i) the effect of the counterparty's and the Group's own credit risk on the fair value of the forward foreign exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and
- (ii) changes in the timing of the hedged transactions.

## Notes to the Consolidated Financial Statements

### 34. Financial Risk Management (Continued)

The following table details the forward foreign exchange contracts that have been designated as cash flow hedges of the Group's highly probable forecast transactions at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Notional amount		
– United States dollars	307,622	551,980
– Pound Sterling	30,637	13,908
– Japanese Yen	–	3,191

The forward foreign exchange contracts have a maturity ranged from 1 to 5 years from the reporting date and have an average forward exchange rate as follows:

	2019 HK\$'000	2018 HK\$'000
Renminbi to United States dollars	6.8535	6.7694
Euro to Pound Sterling	0.8532	0.8815
Euro to Japanese Yen	–	130.7750

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2019 HK\$'000	2018 HK\$'000
Balance at 1 January	(12,115)	(6,344)
Effective portion of the cash flow hedge recognised in other comprehensive income (Note (i))	(7,402)	(14,477)
Amounts reclassified to profit or loss	11,031	8,706
Balance at 31 December (Note (ii))	(8,486)	(12,115)

Notes:

- (i) The amount represented the change in fair value of the forward foreign exchange contracts during the year.
- (ii) The entire balance in the hedging reserve relates to continuing hedges.

#### B. Recognised assets and liabilities

In respect of other trade receivables and payables denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

#### C. Exposure to currency risk

At 31 December 2019, if Renminbi against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be increased/decreased by HK\$9,345,000 (2018: increased/decreased by HK\$1,992,000) mainly as a result of foreign exchange difference on translation of Hong Kong dollar denominated net monetary assets of certain PRC subsidiaries; while the other comprehensive income would be increased/decreased by HK\$26,421,000 (2018: increased/decreased by HK\$25,700,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

At 31 December 2019, if Euro against Hong Kong dollars had strengthened/weakened by 5% with all other variables held constant, the post-tax loss for the year would be decreased/increased by HK\$3,133,000 (2018: decreased/increased by HK\$3,278,000) as a result of foreign exchange difference on translation of Euro denominated monetary assets of a Hong Kong subsidiary; while the other comprehensive income would be increased/decreased by HK\$1,204,000 (2018: increased/decreased by HK\$863,000), representing the impact of the change in fair value of forward foreign exchange contracts at the end of the reporting period.

If Pound Sterling, Philippine Pesos, Thai Bahts and Vietnam Dong\$ had strengthened/weakened against Hong Kong dollars by 5% at the year end date with all other variables held constant, the impact on post-tax loss for the year would not be significant.



## Notes to the Consolidated Financial Statements

### 34. Financial Risk Management (Continued)

#### (ii) Liquidity risk

The Group has been prudent in liquidity risk management by maintaining sufficient cash and the availability of sufficient funding through an adequate amount of committed credit facilities from the Group's bankers.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The cash flow requirements for derivative financial instrument arising from forward foreign exchange contracts are separately provided as the contractual maturities are essential for the understanding of the timing of the cash flows.

	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000
At 31 December 2019					
Accounts payable and bills payable	179,110	-	-	-	179,110
Accruals and other payables	155,637	-	-	-	155,637
Bank borrowings and interest payments	64,585	-	-	-	64,585
Licence fees payable	27,991	44,096	150,003	226,773	448,863
Lease liabilities (note)	78,348	54,926	49,974	86,056	269,304
	505,671	99,022	199,977	312,829	1,117,499

	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000
At 31 December 2018					
Accounts payable and bills payable	166,179	-	-	-	166,179
Accruals and other payables	216,069	-	-	-	216,069
Bank borrowings and interest payments	73,900	-	-	-	73,900
Licence fees payable	16,514	27,876	142,010	282,083	468,483
	472,662	27,876	142,010	282,083	924,631

#### Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See Note 2(c).

All the Group's forward foreign exchange contracts outstanding at 31 December 2019 are net settlement contracts in hedge relationships. Contracts due to settle within 12 months require undiscounted contractual cash outflows of HK\$7,344,000 (2018: HK\$8,350,000). Contracts due to settle between 1 and 5 years require undiscounted contractual cash outflows of HK\$1,661,000 (2018: HK\$5,178,000). There is no gross settlement contract as at 31 December 2019 and 2018.

#### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to accounts receivable. The Group's exposure to credit risk arising from cash and bank balances, bills receivable and derivative financial assets is limited because the counterparties are banks and financial institutions with sound credit ratings and the Group does not expect any significant credit risk. The Group does not provide any other guarantees which would expose the Group to credit risk.

#### Accounts receivable

The Group's sales are mainly on open account. Each open account customer is granted an approved credit limit and the Group closely and regularly monitors the credit default risk of receivables from customers. During the years ended 31 December 2019 and 2018, receivables from customers of garment manufacturing segment are substantially covered by credit insurance. At the end of the reporting period, 19% (2018: 13%) and 55% (2018: 45%) of the accounts receivable and bills receivable was due from the Group's largest customer and the five largest customers respectively in the garment manufacturing segment.

The Group measures loss allowances for accounts receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for accounts receivable:

	2019		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Less than 3 months	-	342,757	-
3 months to 6 months	-	9,948	-
Over 6 months	100	7,199	7,199
		359,904	7,199

	2018		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Less than 3 months	-	295,927	-
3 months to 6 months	-	1,682	-
Over 6 months	100	1,790	1,790
		299,399	1,790

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## Notes to the Consolidated Financial Statements

### 34. Financial Risk Management (Continued)

Movement in the loss allowance account in respect of accounts receivable during the year is as follows:

	2019 HK\$'000	2018 HK\$'000
As at 1 January	1,790	1,764
Receivables written off during the year as uncollectible	(380)	(943)
Impairment losses recognised during the year	5,789	969
As at 31 December	7,199	1,790

#### 34.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Total capital comprises "capital and reserves" as shown in the consolidated statement of financial position plus net borrowing, if any. During the years ended 31 December 2019 and 2018, the Group had no net borrowings, which is calculated as total borrowings less cash and bank balances.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity shareholders, return capital to equity shareholders, issue new shares or reduce debt.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### 34.3 Fair value estimation

The fair value of derivative financial instruments (forward foreign exchange contracts) is determined using forward exchange market rates at the end of each reporting period. The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial instruments are measured in the statement of financial position at fair value. HKFRS 13, *Fair value measurement*, requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in the active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs or which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

At 31 December 2018, structured bank deposits represent foreign currency linked structured bank deposits ("SBDs") placed by the Group to a bank. Pursuant to the relevant underlying agreements, the SBDs carry interest at a variable rate per annum with reference to the performance of foreign currency during the investment period and the principal sums are denominated in RMB. The SBDs are designated at fair value through profit or loss ("FVTPL") on initial recognition as they contain non-closely related embedded derivatives. The directors of the Group considers the fair values of the SBDs, which are based on the prices provided by the counterparty banks representing the prices they would pay to redeem the deposits at 31 December 2018, approximate to their carrying values on the same day.

Forward foreign exchange contracts are measured at fair value and classified as level 2 valuations at 31 December 2019 and 2018. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant. There was no change in valuation techniques during the year.

There was no transfer of financial assets between fair value hierarchy classifications for the years ended 31 December 2019 and 2018. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and 2018.

#### 34.4 Offsetting financial assets and financial liabilities

There is no material offsetting, enforceable master netting arrangement and similar agreements during the year.

## Notes to the Consolidated Financial Statements

### 35. Commitments

#### (a) Capital commitments

The Group was committed at 31 December 2019 to enter into a lease of 4 years that is not yet commenced, the lease payments under which amounted to HK\$3,831,000 per annum. Except for the above, the Group had no capital commitments as at 31 December 2019 and 2018.

#### (b) Operating lease commitments

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

	2018 HK\$'000
Within 1 year	41,766
After 1 year but within 5 years	41,553
After 5 years	9,185
	92,504

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2(c)). From 1 January 2019 onwards, future lease payments other than short term leases are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 2(h), and the details regarding the Group's future lease payments are disclosed in Note 29. The 2019 total future minimum lease payments relate to short term leases not recognised under lease liabilities.

### 36. Related Party Transactions

#### (a) Lease arrangements with related parties

In 2019, the following significant related party transactions were carried out in the normal course of the Group's business:

	Amounts owed by the Group to related party		Related interest expense	
	As at		Year ended	
	31 December		31 December	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Lease liabilities due to a related company	9,076	-	(401)	-

	2019 HK\$'000	2018 HK\$'000
Rental payment to TDB under former tenancy agreement	1,650	6,649
Rental payment to TDB under new tenancy agreement	5,580	-

In February 2019, the Group entered into a two-year lease ("new tenancy agreement") with TDB Company Limited ("TDB") in respect of certain properties from TDB for factory, storage and ancillary office. The amount of rent payable by the Group under the lease is HK\$620,000 per month commencing from 1 April 2019 after the previous lease ("former tenancy agreement") ended on 31 March 2019. On 18 February 2019, the Group recognised a right-of-use asset and a lease liability of HK\$16,894,000 in relation to this lease following the adoption of HKFRS 16.

The entire issued share capital of TDB, a related company, is held by a discretionary trust of which two directors of the Company are eligible beneficiaries at the dates of the lease agreements.

#### (b) Transactions with key management

##### (i) Key management personnel remuneration

Remuneration of key management personnel of the Group including amounts paid to the Company's directors as disclosed in Note 12 and certain of the highest paid employees as disclosed in Note 13, is as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and bonuses	22,187	18,134
Defined contribution plans	460	390
Share-based compensation expense – share options granted	523	360
	23,170	18,884

Total remuneration is included in "employee benefit expenses" (see Note 11).

##### (ii) Advance to an employee

In June 2012, a subsidiary of the Group made a cash advance of HK\$12,000,000 to a key management employee of the Group. Pursuant to the agreement and the amendment agreements dated in June 2013 and 2014, the cash advance is unsecured and bears interest at the Group's cost of borrowing. Cash advance of HK\$3,500,000 plus related interest has been fully repaid in 2016. The remaining cash advance of HK\$8,500,000 ("long-term portion") was to be waived by the subsidiary in equal amount semi-annually over a period of ten years commencing from the third year while the individual remains as an employee of the Group. Any unwaived principal plus related accrued interest will be repayable upon cessation of employment of the employee. The long-term portion regarded as prepaid staff benefit is included in other long-term assets (Note 17) and is amortised over twelve years from the date of the advance.

## Notes to the Consolidated Financial Statements

### 37. Notes to the Consolidated Cash Flow Statement

#### (a) Reconciliation of loss before tax to cash generated from operations:

	2019	2018
	HK\$'000	(Note) HK\$'000
Loss before tax	(12,230)	(70,838)
Adjustments for:		
Depreciation on property, plant and equipment	62,280	61,243
Depreciation of right-of-use assets	69,895	–
Amortisation of intangible assets	31,652	20,789
Derecognition of licence right upon early termination	–	20,973
Derecognition of licence fees payable upon early termination	–	(26,797)
Net gain on disposal of a subsidiary	(10,914)	–
Net loss on disposals of property, plant and equipment	51	65
Write-down of inventories to net realisable value, net	7,456	29,863
Share-based compensation expense – share options granted	749	544
Provision for impairment of receivables, net	5,789	969
Finance income	(1,930)	(3,574)
Finance costs	34,119	17,928
Effect of foreign exchange rate changes	11,933	(10,464)
Impairment of property, plant and equipment	4,500	–
Changes in working capital:		
Increase in inventories	(18,491)	(201,033)
Increase in accounts receivable and bills receivables	(60,885)	(33,714)
(Increase)/decrease in prepayment other receivables	(14,309)	1,731
Increase in accounts payable and bills payable	12,931	60,642
(Decrease)/increase in accruals and other payables and contract liabilities	(2,991)	15,595
Increase in retirement benefits and other post retirement obligations	8,077	3,474
Cash generated from/(used in) operations	127,682	(112,604)

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK\$57,665,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 37(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 2(c).

(b) The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	HK\$'000
At 1 January 2018	98,871
Changes from financing cash flows:	
Proceeds from new bank borrowings	697,200
Repayment of bank borrowings	(722,279)
Interest paid	(4,253)
Other changes:	
Finance costs (Note 7)	4,253
At 31 December 2018	73,792
Impact on initial application of HKFRS 16 (Note)	147,869
	HK\$'000
At 1 January 2019	221,661
Changes from financing cash flows:	
Proceeds from new bank borrowings	489,511
Repayment of bank borrowings	(498,763)
Capital element of lease rentals paid	(63,689)
Interest element of lease rentals paid	(8,807)
Interest paid	(4,132)
Other changes:	
Increase in lease liabilities from new leases entered during the period	130,703
Finance costs (Note 7)	12,939
At 31 December 2019	279,423

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

## Notes to the Consolidated Financial Statements

### 37. Notes to the Consolidated Cash Flow Statement (Continued)

#### (c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following and wholly represent lease rentals paid.

	2019 HK\$'000	2018 (Note) HK\$'000
Within operating cash flows	19,204	57,665
Within financing cash flows	72,496	–
	<b>91,700</b>	57,665

Note:

As explained in the note to Note 37(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amount have not been restated.

### 38. Company-level Financial Information

#### (a) Company-level statement of financial position

	31 December 2019 Note HK\$'000	31 December 2018 HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	–	184
Interests in subsidiaries	840,975	494,544
Deferred tax assets	114	114
	<b>841,089</b>	494,842
<b>Current assets</b>		
Amounts due from subsidiaries	222,256	443,244
Prepayments and other receivables	529	613
Current tax recoverable	–	19
Cash and bank balances	8,615	9,155
	<b>231,400</b>	453,031
<b>Current liabilities</b>		
Accruals and other payables	5,284	4,918
Amounts due to subsidiaries	98,768	4,711
	<b>104,052</b>	9,629
<b>Net current assets</b>	<b>127,348</b>	443,402
<b>Net assets</b>	<b>968,437</b>	938,244
<b>Capital and reserves</b>		
Share capital	31 27,161	27,161
Reserves	38(b) 941,276	911,083
<b>Total equity</b>	<b>968,437</b>	938,244

Approved and authorised for issue by the Board of Directors on 31 March 2020.

**WANG Kin Chung, Peter**  
Director

**MAK WANG Wing Yee, Winnie**  
Director

## Notes to the Consolidated Financial Statements

### 38. Company-level Financial Information (Continued)

#### (b) Movements in components of equity

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 January 2019	14,449	1,882	321,020	110,000	463,732	911,083
<b>Comprehensive income</b>						
Profit for the year	–	–	–	–	29,444	29,444
<b>Total comprehensive income</b>	14,449	1,882	321,020	110,000	493,176	940,527
<b>Transactions with owners</b>						
Share option scheme						
– value of employee services	–	749	–	–	–	749
Share options granted to employee lapsed	–	(295)	–	–	295	–
<b>Total transactions with owners</b>	–	454	–	–	295	749
As at 31 December 2019	14,449	2,336	321,020	110,000	493,471	941,276

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 January 2018	14,449	1,658	321,020	110,000	455,668	902,795
<b>Comprehensive income</b>						
Profit for the year	–	–	–	–	7,744	7,744
<b>Total comprehensive income</b>	–	–	–	–	7,744	7,744
<b>Transactions with owners</b>						
Share option scheme						
– value of employee services	–	544	–	–	–	544
Share options granted to employee lapsed	–	(320)	–	–	320	–
<b>Total transactions with owners</b>	–	224	–	–	320	544
As at 31 December 2018	14,449	1,882	321,020	110,000	463,732	911,083

### 39. Events After the Reporting Period

The outbreak and rapid spreading of 2019 Novel Coronavirus since early 2020 across continents have created unprecedented disruptions to the movement of people, goods and supply chains. It has been affecting the Group's business and is expected to have negative impact on the Group's financial performance in 2020. However, at the date of 31 March 2020, it is not practicable to estimate its full financial effect to the Group. The Group has actively put in place measures in mitigating its impact. The Group will closely monitor the development and will keep its alleviating measures under regular review.

### 40. Comparative Figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

### 41. Immediate and Ultimate Holding Company

At 31 December 2019, the directors consider the immediate parent and ultimate holding company of the Group to be Silver Tree Holdings Inc. and New Perfect Global Limited respectively, both of which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

## Notes to the Consolidated Financial Statements

### 42. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

Effective for  
accounting periods  
beginning on or after

Amendments to HKFRS 3, *Definition of a business*

1 January 2020

Amendments to HKAS 1 and HKAS 8, *Definition of material*

1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

### 43. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2019

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding		
					by Company	by subsidiary	by Group
338 Apparel Limited	Hong Kong	Hong Kong	Branded product trading	HK\$1,000,000	–	100%	100%
338 Fashion Co. Limited	Hong Kong	Hong Kong	Branded product distribution and retail	HK\$3,000,000	–	100%	100%
338 Fashion (Macau) Company Limited	Macau	Macau	Branded product distribution and retail	MOP25,000	–	100%	100%
Action Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%
All Asia Garment Industries, Inc.	The Philippines	The Philippines	Factory facilities leasing	P42,425,000	–	100%	100%
All Asia Industries Co., Ltd. (Note (i))	PRC	PRC	Garment manufacturing	HK\$53,500,000	–	100%	100%
Apparel Trading & Property Ventures, Inc.	The Philippines	The Philippines	Investment holding	P7,500,000	–	100%	100%
Brilliant Idea International Limited	Hong Kong	Hong Kong	Investment holding	HK\$100	–	100%	100%
昇韻管理諮詢(深圳)有限公司 (Note (i))	PRC	PRC	General administrative and supporting services	RMB500,000	–	100%	100%
Broad Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%
Cissonne (Shanghai) Enterprises Co., Ltd. (Note (i))	PRC	PRC	Branded product distribution and retail	RMB1,000,000	–	100%	100%
Cissonne Hong Kong Limited	Hong Kong	Hong Kong	General trading	HK\$1	–	100%	100%
Dress Line Holdings, Inc.	The Philippines	The Philippines	Investment holding	P59,562,500 (common) P192,930,189 (preferred) (Note (ii))	–	100%	100%

## Notes to the Consolidated Financial Statements

### 43. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2019

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding		
					by Company	by subsidiary	by Group
Elite Fashion (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK\$2	–	95%	95%
Excellent Jade Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK\$10,000	–	100%	100%
Excellent Quality Apparel, Inc.	The Philippines	The Philippines	Garment manufacturing	P40,000,000	–	100%	100%
Gold Flower Limited	Hong Kong	Hong Kong	General administrative and supporting services	HK\$10,000	–	100%	100%
Guangzhou Excellent Fashion Design Company Limited (Note (i))	PRC	PRC	Garment design and provision of technical services	RMB1,500,000	–	100%	100%
Guangzhou Tristate Industrial Co., Ltd. (Note (i))	PRC	PRC	Garment manufacturing	HK\$18,500,000	–	100%	100%
Hefei Tristate Garment Manufacturing Company Limited (Note (i))	PRC	PRC	Garment manufacturing	RMB105,000,000	–	100%	100%
合肥賢法服裝有限公司 (Note (i))	PRC	PRC	General trading	RMB1,000,000	–	100%	100%
HFT Corp. Limited	Hong Kong	Hong Kong	Investment holding	HK\$10,000,000	–	100%	100%
Honest Point Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%
Hua Thai Manufacturing Public Company Limited	Thailand	Thailand	Garment manufacturing and exporting	THB100,000,000	–	99.87%	99.87%
Hwa Fuh Manufacturing Company (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	HK\$55,180,219	–	100%	100%
Joint Holdings & Trading Company Limited	Hong Kong	Hong Kong	Investment holding	HK\$925 (ordinary) HK\$7,200,075 (deferred) (Note (iii))	–	100%	100%
Keybird Limited	Hong Kong	Hong Kong	Investment holding	HK\$3,000,000	100%	–	100%
Keyear Company Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	100%	–	100%
Maxride Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%
Prime-Time Company Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%
Prosperous Year International Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	100%	100%
Quality Time Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	100%	–	100%
Shanghai Tristate Enterprises Co., Ltd. (Note (i))	PRC	PRC	Branded product distribution and retail	RMB180,000,000	–	100%	100%
Sharp Hero International Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	100%	100%
Shiny Ease Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	95%	95%



## Notes to the Consolidated Financial Statements

### 43. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2019

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding		
					by Company	by subsidiary	by Group
Sigsbee Investment Limited	The Republic of Liberia	Hong Kong	Investment holding	US\$1	100%	–	100%
Sparkling Ocean Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	100%	–	100%
Strong Pine Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	100%	–	100%
Tenmo Limited	Hong Kong	Hong Kong	Investment holding	HK\$2,000,000	100%	–	100%
Timely Corporate Limited	Hong Kong	Hong Kong	Nominee and secretarial services	HK\$1	100%	–	100%
Trinnovation Italy S.r.l.	Italy	Italy	Product design and development	EUR120,000	–	95%	95%
Tristate Cissonne Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	100%	100%
Tristate Cissonne International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	100%	100%
Tristate Cissonne IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US\$1	–	100%	100%
Tristate EFM Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	100%	100%
Tristate EFM International Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US\$100	–	100%	100%
Tristate EFM IP Limited	British Virgin Islands	Hong Kong	Trademark holding	US\$1	–	100%	100%
Tristate Industrial Co., Ltd.	Taiwan	Taiwan	Sales liaison services	NT\$20,000,000	–	100%	100%
Tristate International SA	Switzerland	Switzerland	General trading and marketing	CHF1,600,000	–	95%	95%
Tristate Italy S.r.l.	Italy	Italy	Trading of apparel and accessories	EUR400,000	–	95%	95%
Tristate Japan, Inc.	Japan	Japan	Garment trading and distribution	JPY5,000,000	–	95%	95%
Tristate Netherlands B.V.	The Netherlands	The Netherlands	Retail store operation	EUR200,000	–	95%	95%
Tristate Myanmar Company Limited	The Republic of the Union of Myanmar	The Republic of the Union of Myanmar	Garment manufacturing	US\$1,126,322	–	100%	100%
Tristate Trading Limited	Malaysia	Macau	Garment trading	US\$1	–	100%	100%
Tristate Trading (Hong Kong) Limited	Hong Kong	Hong Kong	Garment trading and manufacturing	HK\$1	–	100%	100%
Tristate Tri-novation Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%
Tristate Tri-novation Hong Kong Limited	Hong Kong	Hong Kong	Investment holding	HK\$1	–	95%	95%
Tristate Trinnovation IP S.à r.l.	Luxembourg	Luxembourg	Trademark holding and licensing	EUR12,500	–	95%	95%
Tristate US Inc.	United States of America	United States of America	Branded product distribution and retail	US\$1	–	100%	100%

## Notes to the Consolidated Financial Statements

### 43. Particulars of Principal Subsidiaries, all of which are Unlisted, as at 31 December 2019

(Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Principal activities	Issued and fully paid share capital/ registered capital	Effective shareholding		
					by Company	by subsidiary	by Group
TT&Co Asia Limited	Hong Kong	Hong Kong	General trading	HK\$10,000	–	100%	100%
Uppain Limited	British Virgin Islands	Hong Kong	Investment holding	US\$16,000,000	–	99.87%	99.87%
Uppain (Vietnam) Manufacturing Company Limited	Vietnam	Vietnam	Garment manufacturing	US\$4,000,000	–	100%	100%
Velmore Holdings Limited	England	England	Investment holding	GBP558,335.60	–	100%	100%
Velmore Limited	England	England	Design and customer support services	GBP30,000	–	100%	100%
Winner Wealth Limited	British Virgin Islands	Hong Kong	Investment holding	US\$1	–	100%	100%

Notes:

- (i) A wholly foreign owned enterprise established in the PRC.
- (ii) The holders of the preferred shares are entitled to receive the same dividends as the common shares and have no right to vote at any general meeting of the company. The preferred shares are redeemable subject to the terms and conditions determined by the board of directors of the company and have preference over common shares in the distribution of assets of the company in the event of liquidation.
- (iii) The holders of the deferred shares are not entitled to receive any dividends or other distributions and have no right to vote at any general meeting of the company. They are not entitled to participate in any profits or assets of the company unless upon a winding up, in that case, the holders of the deferred shares have the right to receive the amount paid up on such deferred shares to be paid out of the surplus assets of the company in accordance with its articles of association.

None of the subsidiaries had any loan capital in issue at any time during the years ended 31 December 2019 and 2018.