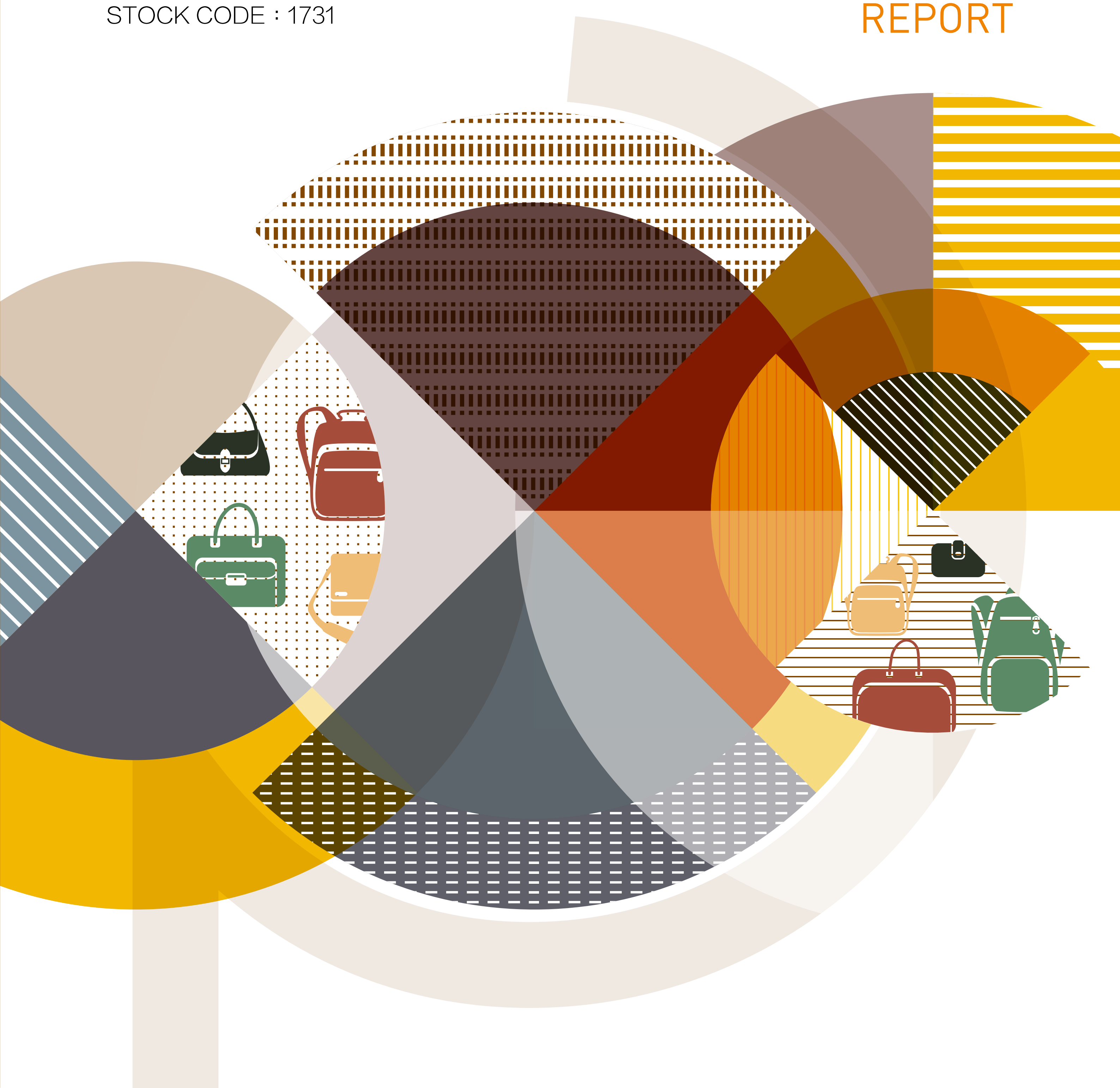
PROSPEROUS INDUSTRIAL (HOLDINGS) LIMITED

其利工業集團有限公司

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE：1731

2019 ANNUAL REPORT



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Corporate Information

EXECUTIVE DIRECTORS
Mr. Yeung Shu Kin *(Chairman)*
Mr. Yeung Shu Kai
Mr. Duong Stephen Dien Sieu
(resigned with effect from 31 March 2020)
Mr. Yeung Wang Tony
(appointed with effect from 31 March 2020)

NON-EXECUTIVE DIRECTORS
Mr. Lu Chin-Chu
(resigned with effect from 31 March 2020)
Mr. Tsai Nai-Yung
Mr. Chau Chi Ming
(appointed with effect from 31 March 2020)

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

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

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

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

COMPANY SECRETARY
Mr. Cheung Yuk Chuen

AUTHORISED REPRESENTATIVES
Mr. Cheung Yuk Chuen
Mr. Duong Stephen Dien Sieu
(resigned with effect from 31 March 2020)
Mr. Yeung Wang Tony
(appointed with effect from 31 March 2020)

AUDITOR
Ernst & Young

COMPLIANCE ADVISOR
WAG Worldsec Corporate Finance Limited

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

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

COMPANY'S WEBSITE
www.pihl.hk

PRINCIPAL SHARE REGISTRAR
Conyers Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR
Tricor Investor Services Limited

PRINCIPAL BANKER
Shanghai Commercial Bank Limited

STOCK CODE
1731

Financial Highlights

	2019	2018
Key financial information		
Revenue (US$'000)	**223,161**	221,849
Gross profit (US$'000)	**47,291**	49,475
Profit/(loss) for the year (US$'000)	**(566)**	7,370
Basic and diluted earnings/(loss) per share (US cents)	**(0.05)**	0.76
Total assets (US$'000)	**188,562**	190,072
Total equity (US$'000)	**134,445**	142,601
Key financial ratios		
Gross profit margin (%)	**21.2**	22.3
Current ratio[1]	**3.0**	3.1
Quick ratio[2]	**2.2**	2.3
Gearing ratio (%)[3]	**–**	–

Notes:

1. Current ratio was calculated as total current assets divided by total current liabilities.

2. Quick ratio was calculated as total current assets less inventories, and divided by total liabilities.

3. Gearing ratio was calculated as total debt, excluding lease liabilities, divided by total equity.

Chairman's Statement

Dear Valued Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Director(s)**") of Prosperous Industrial (Holdings) Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2019 (the "**Year**").

Being one of the leading Original Equipment Manufacturers ("**OEM**") and Original Design Manufacturers ("**ODM**") in the global bags and packs market, the Group has established long-term business relationship with world-famous sports and lifestyle brand owners. The Group's customer base remained very stable and we have been diligently exploring more business opportunities with our existing and potential customers. Despite the growing pressure from the USA-China trade war (the "**Trade War**"), and lackluster performance across the manufacturing sector with weakened international trade flows, the Group's revenue stayed flat for the Year. However, a net loss was recorded with some one-off costs incurred for closing down three of its production plants in the PRC. It was the Group's strategic move to reallocate more production capacity to Vietnam and Cambodia. At the same time we also made certain adjustments on product mix to better fit the current capacity across our multi-regional manufacturing platform. As we continue to expand in Vietnam and Cambodia, we believe the Group will be better positioned to enjoy the lower manufacturing costs and favorable international trade benefits in long run, as well as to maintain the diversified sourcing network of raw materials at a cost-efficient manner.

The challenging business environment is expected to continue in 2020 with the recent outbreak of the novel coronavirus pandemic. While the operation of the Group's production bases in Vietnam and Cambodia were not disrupted, there was prolonged off time in the Group's PRC offices and production plant since Lunar New Year due to anti-epidemic control measures implemented by the PRC government. Operation in the PRC resumed gradually since mid-February 2020 and keeping the health and safety of the employees as top priority of the Group. We will keep monitoring and assessing the development of the pandemic, and adjust to the market and economic changes from time to time.

Meanwhile, the Group is always committed to attaining effective corporate governance practice, through integrating risk management and internal control into business processes, as well as strengthening capital structure, we strive for long-term interests and returns for the shareholders of the Company (the "**Shareholders**").

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our sincere appreciation to our employees for their dedication and commitment during the Year. I would also like to offer our heartfelt gratitude to all our Shareholders, customers, suppliers, business partners and other stakeholders for their continued support to the Group. Looking ahead, we will continue to develop our business, to provide high quality products to our customers, and to create value for the Shareholders.

Yeung Shu Kin
Chairman

Hong Kong
31 March 2020

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. YEUNG Shu Kin ("**Mr. Herman Yeung**"), aged 71, was first appointed as a Director on 12 May 2004. He was appointed as the chairman of the Board on 15 December 2017 and was re-designated as an executive Director on 29 March 2018. Mr. Herman Yeung is also a director and supervisor of certain subsidiaries of the Group. Mr. Herman Yeung is mainly responsible for providing overall management and strategic development of the Group and has over 34 years of experience in the manufacturing industry.

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

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

Mr. YEUNG Shu Kai ("**Mr. Philip Yeung**"), aged 60, was appointed as a Director on 1 August 2017 and was re-designated as an executive Director on 29 March 2018. Mr. Philip Yeung is also a director of certain subsidiaries of the Group. Mr. Philip Yeung is responsible for overseeing the quality control function of the factories in the PRC and has over 36 years of experience in the manufacturing industry.

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

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

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS *(continued)*

Mr. YEUNG Wang Tony ("**Mr. Tony Yeung**"), aged 46, joined the Group in January 2000 and appointed as an executive Director on 31 March 2020. He is also a director of certain subsidiaries of the Group. He has been a project director of the Company since 1 September 2017 and is responsible for overseeing the retail business and projects of the Group.

Mr. Tony Yeung obtained his bachelor's degree in science from the Babson College in the United States in May 1995. Mr. Tony Yeung is the son of Mr. Yeung and Mrs. Yeung, both are the substantial shareholders of the Company, the brother of Mr. Yeung Theodore Tat, the senior management of the Company and the nephew of Mr. Herman Yeung, the Chairman and an executive Director, Mr. Philip Yeung, an executive Director and Mr. Edmond Yeung, the Chief Executive Officer.

NON-EXECUTIVE DIRECTORS

Mr. TSAI Nai-Yung ("**Mr. Tsai**"), aged 63, joined the Group in August 2009. He was appointed as a Director on 10 August 2010 and was re-designated as a non-executive Director on 29 March 2018. Mr. Tsai is also a director of certain subsidiaries of the Group. Mr. Tsai is responsible for providing overall management and strategic development of the Group.

Mr. Tsai graduated from Lukang Junior High School*（彰化縣立鹿港國民中學）in Taiwan in July 1972 and has over 39 years of experience in the manufacturing industry. He is currently the Vice President of Pou Chen Corporation, a company listed on Taiwan Stock Exchange ("**TSE**") (stock code: 9904 TSE) and a director of Evermore Chemical Industry Co., Ltd. (stock code: 1735 TSE) and Nan Pao Resins Chemical Co., Ltd. (stock code: 4766 TSE), both companies being listed on TSE.

Mr. CHAU Chi Ming ("**Mr. Chau**"), aged 56, was appointed as non-executive Director on 31 March 2020. He is a senior director of Finance & Treasury Department of Yue Yuen Industrial (Holdings) Limited ("**Yue Yuen**") a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 551), responsible for daily financial management and treasury functions. He is also a director of certain subsidiaries of Yue Yuen. He was the company secretary of Yue Yuen from 12 January 2014 to 23 March 2016 and has been reappointed as the company secretary of Yue Yuen since 31 July 2019. Mr. Chau had worked in an international bank and gained corporate banking experience before joining Yue Yuen in 1993.

Mr. Chau graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree, majoring in Finance. He is a member of The Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants of the United Kingdom.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHIU Che Chung Alan ("**Mr. Chiu**"), aged 39, was appointed as the independent non-executive Director, the members of the audit committee and the nomination committee and the chairman of the remuneration committee of the Company on 19 June 2018.

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

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

Mr. KO Siu Tak ("**Mr. Ko**"), aged 56, was appointed as the independent non-executive Director, member of the remuneration committee and the chairman of the audit committee of the Company on 19 June 2018. Mr. Ko obtained a master of arts from Macquarie University, Australia in October 1995. He is the sole proprietor of SQC CPA Limited and a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of Society of Chinese Accountants and Auditors.

Mr. Ko has over 31 years of experience in business and risk management advisory areas. In January 1986, Mr. Ko joined Dun & Bradstreet (H.K.) Ltd. (a company mainly engaged in risk management business) as an assistant collection consultant in receivable management operations division and in 1993, was promoted as divisional manager responsible for running domestic operations divisions of collectors. From 1996 to July 1997, Mr. Ko served as director of operations in Dun & Bradstreet (H.K.) Ltd. responsible for overseeing the receivable management division. From December 1997 to October 2000, Mr. Ko served as a credit manager of Sing Tao Limited where he was responsible for billing, leasing, Insurance, credit risk management and government project management.

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

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. YIP Kwok Cheung ("**Mr. Yip**"), aged 56, was appointed as the independent non-executive Director, member of the audit committee and the chairman of the nomination committee of the Company on 19 June 2018. Mr. Yip graduated from The Australian National University in Australia with a bachelor of economics in 1986.

Mr. Yip has over 24 years of management experience. From 1994 to 1997, he served as the managing director in Teschner Pty Limited, a restaurant and catering company, in Canberra, Australia where he was responsible for directing company activities, managing budgets and providing guidance for staff. From November 1996 to June 2007, Mr. Yip served as an executive director in Merdeka Financial Services Group Limited (萬德金融服務集團有限公司*) and Merdeka Resources Holdings Limited (萬德資源集團有限公司*), a company listed on GEM of the Stock Exchange (stock code: 8163) where he was responsible for the management of the group and directing overall business and development strategies. From October 2008 to August 2014, Mr. Yip served as the managing director of Hong Kong in Global Market Group (Asia) Limited (環球市場集團(亞洲)有限公司) ("**Global Market Group**") (an investment holding company) where he was mainly responsible for overseeing the operations of the company, handling business development projects. Since his resignation as a managing director, Mr. Yip remained in Global Market Group as a consultant up till September 2018.

SENIOR MANAGEMENT

Mr. YEUNG Shu Hung ("**Mr. Edmond Yeung**"), aged 57, joined the Group in February 1997. He has been appointed as the Chief Executive Officer since 1 September 2017 and is mainly responsible for overseeing all aspects of the operations and strategic planning, formulation of corporate policies and new business initiatives and has over 32 years in the manufacturing industry.

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

* *For identification purpose only*

SENIOR MANAGEMENT *(continued)*

Ms. SHANG KUAN Fei Feng ("**Ms. Iris Shang Kuan**"), aged 48, joined the Group in December 2018 as a Project Director of a subsidiary of the Company. She has been appointed as the Chief Operating Officer of the Company since 1 January 2020 and is mainly responsible for overseeing all operations and business activities to ensure the desired results and consistent with the overall strategy and mission.

Ms. Iris Shang Kuan graduated from the Tamkang University in Taiwan with the degree of Executive Master of Business Administration in June 2004 and she is a certified University Lecturer in Taiwan. She has been specialized in developing business and organizing strategy for over 20 years. Ms. Iris Shang Kuan did not hold any directorship in any listed companies during the last three years.

Mr. YEUNG Theodore Tat ("**Mr. Theodore Yeung**"), aged 39, joined the Group as a quality controller in February 2004. He has been the chief operating officer of the Company from 1 September 2017 to 31 December 2019 and re-designated as the Vice President of Operation from 1 January 2020. He is responsible for overseeing the operational activities of the Group.

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

Mr. TANG Wing Yui ("**Mr. Tang**"), aged 36, is the financial controller of the Company and he joined the Group since April 2017. Mr. Tang holds a bachelor degree of business administration in accountancy from The Chinese University of Hong Kong since December 2007 and he is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2011. He has over 11 years of experience in auditing, accounting and finance. Prior to joining the Group, he worked in a reputable international accounting firm and a Hong Kong listed company. Mr. Tang was the financial controller of a subsidiary of the Company from 10 April 2017 to 31 August 2017 and re-designated to financial controller of the Company from 1 September 2017. Mr. Tang did not hold any directorship in any listed companies during the last three years.

Management Discussion and Analysis

GENERAL OVERVIEW AND BUSINESS REVIEW

The Group is a leading manufacturer that designs, develops and manufactures recreational bags and packs, mainly backpacks, it also provides quality supply chain management services for renowned multinational sports and lifestyle brands.

During the Year, the Group faced a challenging business environment as global trade tension escalated, slowing down the world trade growth. The global economy recorded its lowest growth of the decade at 2.3% for the Year, according to the World Economic Situation and Prospects 2020 of the United Nations. Increasing production costs together with the impacts under the Trade War caused significant operating pressure to the manufacturers in the PRC. The Group's customers have been cautious in placing orders with the Group's PRC production bases, at the same time requesting for more production capacity from the Group's Vietnam and Cambodia production bases. The management of the Company, having reviewed the Group's multi-regional manufacturing platform, decided to reallocate the Group's production capacity by scaling down the operation in the PRC production bases and expanding its Vietnam and Cambodia production bases (the "**Reallocation**"). During the Year, the Group ceased the operation of three production plants in the PRC, while expanding Vietnam production base with additional webbing department, and ramping up the production capacity in Cambodia with more production lines. By the end of 2019, the Cambodia production base housed 68 production lines, up from 48 at the end of 2018, partially compensating the loss of capacity in the PRC.

The Reallocation inevitably affected the Group's financial performance in the short-term, however, the Group believes such moves should bring cost benefits to the Group and foster its relationship with customers in the long run.

OUTLOOK AND PROSPECTS

In addition to the uncertainties caused by the Trade War, the recent outbreak of novel coronavirus pandemic poses greater challenges to the global economy. While all of the Group's production plants are operating at full capacity up to date of this report, it is noted that some of the Group's customers have temporarily closed down their physical stores in certain countries amid the novel coronavirus pandemic. The suspension of retail business, together with the consumer sentiment being affected by the coronavirus, are expected to have a negative impact on the upper stream manufacturing industry, and may eventually affect the Group's performance in 2020. However, the Group is not able to estimate the financial effect at the date of this report. The Group will continue to monitor the risks and uncertainties in connection with the epidemic and work closely with its suppliers and customers to mitigate the adverse impact arising therefrom.

Over the last decade, the Group has been successfully diversifying risks by expanding its production platform to Vietnam and Cambodia. Looking ahead, the Group will continue to leverage through its multi-regional manufacturing platform to enjoy preferential import tariffs and international trading policy benefits, as well as to achieve a sustainable business growth and returns for the Shareholders.

Management Discussion and Analysis

FINANCIAL REVIEW

During the Year, over 98% of the Group's revenue was generated from sales of bags and packs manufactured for brand owner customers. Total revenue for the Year remained stable at approximately US$223.2 million, representing a slight increase of approximately US$1.4 million or 0.6% from approximately US$221.8 million as recorded in 2018. Sales quantity increased from approximately 20.8 million pieces for the year ended 31 December 2018 to approximately 23.4 million pieces for the Year, representing an increase of approximately 2.6 million pieces or 12.5%. The average selling price per piece declined and the sales mix of different product category concentrated more towards outdoor & sporting bags and packs driven by the growth of our customers' business. The breakdown of the revenue, sales quantity and average selling price by product category are set out as below:

	2019				2018			
	Revenue US$'000	%	Sales quantity Pc'000	Average selling price US$/pc	Revenue US$'000	%	Sales quantity Pc'000	Average selling price US$/pc
Product category								
Outdoor & sporting	148,963	66.8	15,513	9.6	137,348	61.9	13,364	10.3
Functional	39,261	17.6	4,341	9.0	47,252	21.3	3,838	12.3
Fashion & casual	29,709	13.3	3,114	9.5	31,765	14.3	3,132	10.1
Others	5,228	2.3	427	12.2	5,484	2.5	490	11.2
Total	223,161	100	23,395	9.5	221,849	100	20,824	10.7

The Group's cost of sales for the year ended 31 December 2019 amounted to approximately US$175.9 million, representing an increase of approximately US$3.5 million or 2.0% from approximately US$172.4 million for 2018. The increase was primarily due to the rising labour cost across the regions. Also, the Group's Cambodia production base was still in its ramp-up period and has not achieved a desirable production efficiency comparing to other production plants of the Group, thus leading to a slight decrease in gross profit margin from 22.3% to 21.2%.

The Group's administrative expenses for the year ended 31 December 2019 amounted to US$28.1 million (2018: US$26.3 million). There was non-recurring listing expenses of approximately US$2.5 million in 2018, while during the Year, there was one-off staff compensation for the cessation of operation of three production plants in the PRC amounting to approximately US$4.4 million, thus leading to the increase in the administrative expenses.

Selling and distribution expenses for the year ended 31 December 2019 amounted to approximately US$15.9 million (2018: US$15.4 million). The increase was mainly due to the increase in use of airfreight for delivering products to customers during the Year.

Other expenses for the year ended 31 December 2019 increased significantly as compared to 2018, largely due to the disposal loss of certain property, plant and equipment, upon the cessation of operation of three production plants in the PRC amounting to approximately US$1.3 million, and the impairment of certain trade receivables amounting to approximately US$0.8 million.

Management Discussion and Analysis

Loss attributable to shareholders of the Company for the Year amounted to US$0.6 million, as compared to profit of approximately US$7.4 million for 2018. Loss per share for the Year amounted to 0.05 US cent, as compared to earnings per share of 0.76 US cent for 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL EXPENDITURE

The Group maintained solid financial position throughout the Year. During the Year, the Group's primary sources of funding were cash generated from operating activities. As at 31 December 2019, the Group had cash and cash equivalents of approximately US$51.1 million and no external borrowings. The gearing ratio of the Group was zero (31 December 2018: zero) as at 31 December 2019, calculated as total debt, excluding lease liabilities, divided by total equity.

During the Year, the Group incurred capital expenditure of US$4.4 million, mainly attributable to the expansion of production bases in Cambodia and Vietnam, and acquisition of property, plant and equipment.

EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of novel coronavirus in January 2020, the PRC government has implemented various anti-epidemic control to mitigate the impact of the virus. Due to those control measures, the Group's PRC production plant and offices did not resume to work immediately after Lunar New Year until 17 February 2020.

As the Group's has reallocated most of its production capacity to Vietnam and Cambodia, the aforementioned suspension of operation of the PRC production plant did not have material impact on the Group.

However, the novel coronavirus pandemic is expected to have a negative impact on global economy and the Group will be affected. The Group will continue to monitor the situation.

MEMORANDUM OF UNDERSTANDING ON COOPERATIVE DEVELOPMENT

On 25 June 2019, Guangzhou Glorieux Traveling Articles Co., Ltd.*（廣州澤榮旅行用品有限公司）(“**Guangzhou Glorieux**”), a wholly owned subsidiary of the Company, entered into a memorandum of understanding (the “**MOU**”) with Guangzhou Poly Urban Redevelopment Investment Company Limited*（廣州保利城改投資有限公司）(“**Poly Urban Redevelopment**”), an independent third party, in relation to the cooperative development of a parcel of land (the “**Land**”) owned by Guangzhou Glorieux. Pursuant to the MOU, Guangzhou Glorieux and Poly Urban Redevelopment will cooperate to formulate a plan to redevelop the Land (the “**Redevelopment Project**”). The Land is located at the south side of Nancun Road, Xingye Road, Nancun Town, Panyu District, Guangzhou City, the PRC and is currently used as a factory site. The Redevelopment Project shall be subject to separate legally binding agreements on terms and conditions to be mutually agreed by the signing parties of the MOU. Details were disclosed in the Company's announcement dated 25 June 2019.

Up to the date of this report, no separate legally binding agreements have been entered into by the Group.

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

CAPITAL COMMITMENT

As at 31 December 2019, the Group did not have any significant capital commitment (31 December 2018: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisition or disposals of subsidiaries or associates during the Year.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 8,800 employees (2018: approximately 10,600 employees). Salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis. Remuneration is reviewed annually. Staff benefits include contribution to mandatory, contribution fund, discretionary bonus and share options. During the year ended 31 December 2019, no share options were granted to employees of the Group.

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

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2019, there were no material investments held by the Group (31 December 2018: Nil).

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2019, the Group did not have any charges on its assets (31 December 2018: Nil).

FOREIGN CURRENCY EXPOSURE

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

Directors' Report

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2019 and the Group's financial position are set out in the financial statements on pages 65 to 135.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: final dividend of HK1.5 cents per share and special dividend of HK3.5 cents per share).

ANNUAL GENERAL MEETING

The 2020 AGM is scheduled to be held on 8 June 2020. A notice convening the 2020 AGM will be issued and sent to the Shareholders on or around 29 April 2020.

CLOSURE OF REGISTER OF MEMBERS

To determine the eligibility of the Shareholders to attend the 2020 AGM, the Register of Members will be closed from Wednesday, 3 June 2020 to Monday, 8 June 2020, both days inclusive, during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2020 AGM, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 2 June 2020.

BUSINESS REVIEW

The business review for the year ended 31 December 2019, a discussion of the principal risks and uncertainties facing the Group, analysis using key financial performance indicators, important events affecting the Company and future development in the Group's business are set out in the section headed "Management discussion and analysis" on pages 10 to 13 of this annual report. These discussions form part of this Directors' Report.

The environmental policies and performance, compliance with relevant laws and regulations that have a significant impact on the Company and relationships with employees, customers and suppliers and others that have a significant impact on the Company, and on which the Company's success depends, are also discussed under section headed "Environmental, Social and Governance Report" on pages 44 to 58.

Directors' Report

USE OF PROCEEDS FROM LISTING

The Company raised approximately HK$202.2 million from the listing in July 2018. On 20 December 2019, the Directors resolved to change the use and allocation of the net proceeds as disclosed in the section headed "Future Plans and Use of Proceeds" of the prospectus dated 29 June 2018 (the "**Prospectus**") (the "**Change**") in order to reallocate the Group's production capacity by scaling down the operation in the PRC production bases and expanding its Vietnam and Cambodia production bases. The Directors considered the Change was in the best interest of the Company and the Shareholders as a whole. The Change would allow the Company to deploy its financial resources more effectively. For details of the Change, please refer to the announcement of the Company dated 20 December 2019.

As at 31 December 2019, the amount of the net proceeds which remained unutilised amounted to approximately HK$95.8 million. The remaining unutilised net proceeds are expected to be utilised within 3 years up to 2023.

Set out below are details of the use of proceeds up to 31 December 2019:

	Original allocation of net proceeds HK$ million	**Revised use of net proceeds** HK$ million	**Utilised amount up to 31 December 2019** HK$ million	**Unutilised amount as at 31 December 2019** HK$ million
Further enhancement of manufacturing capacity and flexibility by expanding manufacturing platforms in Cambodia	135.5	135.5	65.9	69.6
Enhancement of production efficiency and capabilities and enhancement of quality control by replacing and upgrading existing production machinery and acquisition of additional machinery, and setting up a research and development centre and additional testing laboratories	30.8	14.5	13.8	0.7
Enhancing brand recognition for MAISON PROMAX and expansion of retail business	12.5	12.5	5.6	6.9
Enhancing IT infrastructure	23.4	8.7	0.8	7.9
Reallocation of production capacity	–	31.0	20.3	10.7
	202.2	202.2	106.4	95.8

Directors' Report

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

As of 31 December 2019, the total amount of the issued share capital of the Company was HK$11,200,000, divided into 1,120,000,000 shares of HK$0.01 per share. Details of movements in the Company's share capital during the Year are set out in the note 27 to financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution amounted to US$64.8 million.

DIVIDEND POLICY

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

– Circumstances under which the Shareholders may or may not expect dividend;

– Financial parameters/factors that shall be considered for declaration of dividend;

– Internal and external factors that shall be considered for declaration of dividend;

– Utilization of retained earnings; and

– Multiple classes of Shares.

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

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

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the Year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier: 6%

– five largest suppliers combined: 23%

Sales

– the largest customer: 23%

– five largest customers combined: 78%

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

DIRECTORS

During the Year to the date of this Directors' Report, the Directors comprised:

Executive Directors
Mr. Yeung Shu Kin *(Chairman)*
Mr. Yeung Shu Kai
Mr. Duong Stephen Dien Sieu (resigned with effect from 31 March 2020)
Mr. Yeung Wang Tony (appointed with effect from 31 March 2020)

Non-executive Directors
Mr. Lu Chin-Chu (resigned with effect from 31 March 2020)
Mr. Tsai Nai-Yung
Mr. Chau Chi Ming (appointed with effect from 31 March 2020)

Independent Non-executive Directors
Mr. Chiu Che Chung Alan
Mr. Ko Siu Tak
Mr. Yip Kwok Cheung

DIRECTORS' BIOGRAPHIES

Biographies of the Directors are set out on pages 5 to 9 of this annual report.

Directors' Report

CHANGES TO DIRECTORS' INFORMATION

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

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yeung Shu Kin, Mr. Yeung Shu Kai and Mr. Duong Stephen Dien Sieu, all are executive Directors, entered into a service contract with the Company for a term of three years commencing from 13 July 2018. Mr. Yeung Wang Tony, an executive Director, entered into a service contract with the Company for a term of three years commencing from 31 March 2020. The above service contracts may be terminated by not less than three months' notice in writing served by either party on the other.

Each of Mr. Lu Chin-Chu and Mr. Tsai Nai-Yung, all are non-executive Directors, entered into a letter of appointment with the Copmany for a term of one year commencing from 13 July 2018 and their appointments had been renewed on 13 July 2019 for another term of one year. Mr. Chau Chi Ming, a non-executive Director, entered into a letter of appointment with the Company for a term of one year commencing from 31 March 2020. The above letter of appointment may be terminated by not less than one months' notice in writing served by either party on the other.

Each of the independent non-executive Directors entered into a letter of appointment with the Company for a term of one year commencing from 19 June 2018 and their appointments had been renewed on 19 June 2019 for another term of one year until terminated by not less than one month's notice in writing served by either party on the other.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the Group's business were entered into or existed for the Year.

MATERIAL CONTRACTS

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

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

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

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

Note:

1. As at 31 December 2019, the total number of issued shares of Prosperous BVI was 100.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the registered of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as known to the Directors or chief executive of the Company, as at 31 December 2019, the following corporates and persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares of the Company and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions in Shares

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

Notes:

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

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

(3) Pou Chen Corporation is a shareholder of Yue Yuen and, is interested as to 51.11% of Yue Yuen through its two wholly-owned subsidiaries, Wealthplus Holdings Limited (interested as to 47.95% of Yue Yuen) and Win Fortune Investments Limited (interested as to 3.16% of Yue Yuen). By virtue of the SFO and with reference to note (2), Pou Chen Corporation is deemed to be interested in the shares of the Company held by Great Pacific. Pou Chen Corporation is incorporated in Taiwan and is listed on the Taiwan Stock Exchange of the Taiwan Stock Exchange Corporation (stock code: 9904 TSE).

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any persons (other than the Directors and chief executive of the Company) who had any interests or short positions in the shares of the Company or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019, none of the Directors was considered to have interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

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

Accordingly, the Scheme Mandate Limit of the Company is 112,000,000 Shares, representing 10% of the Company's issued share and as at the date of this Directors' report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "Share Option Scheme" and "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Associated Corporation" above, at no time during the Year did there subsist any arrangements to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company is a party, being arrangements whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

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

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

Directors' Report

EQUITY-LINKED AGREEMENT

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

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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

During the year ended 31 December 2019, the maintenance fee and utilities and other ancillary charges paid to Pou Sung Vietnam amounted to US$157,000 and US$512,000, respectively, which did not exceed the annual cap of US$160,000 and US$517,000, respectively, as set out in the Prospectus.

Property Management Agreement

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

During the year ended 31 December 2019, property management fees paid to Pou Sung Vietnam amounted to US$160,000, which did not exceed the annual cap of US$168,000 as set out in the Prospectus.

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

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

Directors' Report

PERFORMANCE ON THE NON-COMPETITION UNDERTAKING

Each of Prosperous BVI, Mr. Yeung, Mrs. Yeung, Mr. Herman Yeung, Mr. Yeung Chak Fung, Mr. Philip Yeung, Mr. Edmond Yeung, Mr. Tony Yeung and Mr. Theodore Yeung (together, the "**Controlling Shareholders**") has entered into a deed of non-competition ("**Deed of Non-competition**") dated 26 June 2018 with the Company to the effect that each of them will not directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of the Group from time to time.

Each of the Controlling Shareholders has provided a written confirmation (the "**Confirmation**") to the Company confirming that he/she/it has fully complied with the Deed of Non-competition for the Year. Based on the Confirmation, the independent non-executive Directors have reviewed on behalf of the Company the compliance with the Deed of Non-competition and are satisfied that the Controlling Shareholders have fully complied with the terms for the year ended 31 December 2019 and no new competing business was reported by the Controlling Shareholders throughout the Year.

The Company is not aware of any other matters regarding the compliance of the undertakings in the Deed of Non-competition and there has not been any change in the terms of the Deed of Non-Competition during the Year.

SUFFICIENCY OF PUBLIC FLOAT

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 136. This summary does not form part of the financial statements.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

Directors' Report

AUDITOR

The consolidated financial statements for the years ended 31 December 2017, 2018 and 2019 were audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment upon conclusion of the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yeung Shu Kin
Chairman

Hong Kong
31 March 2020

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 to the Listing Rules for the year ended 31 December 2019. The Board and the management of the Group consider that maintaining a well-established corporate governance practices and procedures is the key to success, and firmly believe that the principles of transparency, accountability and independence are essential for upholding the interests of the stakeholders and maximizing Shareholders' value.

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

MODEL CODE OF CONDUCT OF DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Mr. Yeung Shu Kin *(Chairman)* [(1)]
Mr. Yeung Shu Kai [(1)]
Mr. Duong Stephen Dien Sieu (resigned with effect from 31 March 2020)
Mr. Yeung Wang Tony [(1)] (appointed with effect from 31 March 2020)

Non-executive Directors

Mr. Lu Chin-Chu (resigned with effect from 31 March 2020)
Mr. Tsai Nai-Yung
Mr. Chau Chi Ming (appointed with effect from 31 March 2020)

Independent Non-executive Directors

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

Notes:

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

The biographical details of all Directors are set out on pages 5 to 9 of this annual report. To the best knowledge of the Company, save as disclosed under the section headed "Biographies of Directors and Senior Management", there is no financial, business, family or other material or relevant relationships among members of the Board.

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

Independent Non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with Mr. Ko Siu Tak, one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

Board Diversity Policy

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

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

Appointment and Re-election of Directors

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

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

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

Responsibilities of the Directors

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

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

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

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

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

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

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

During the year ended 31 December 2019, the Board had performed the above-mentioned corporate governance functions by reviewing the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

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

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the accounting department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the Year, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with. The financial statements were prepared on a going concern basis. The reporting responsibilities of the Company's external auditor, Ernst & Young, are set out in the Independent Auditor's Report on pages 59 to 64.

Continuous Professional Development of Directors

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

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

The Directors are committed to complying with code provision A.6.5 of the CG Code and all Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the year ended 31 December 2019 to the Company.

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

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

Notes:

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

B: reading regulatory updates.

Board Meetings

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

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

The Board passed several written resolutions and held 4 meetings during the year ended 31 December 2019. The principal businesses transacted during the Year are including but not limited to the following:

- Approving the financial results and reports for the year ended 31 December 2018;
- Reviewing the corporate governance function, risk management and internal control of the Company;
- Assessing business performance and planning future business directions;
- Approving the financing results and report for the six months ended 30 June 2019;
- Reviewing the quarterly results for the three end nine months ended 31 March 2019 and 30 September 2019 respectively; and
- Approving the changes in use of proceeds.

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

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

BOARD COMMITTEES

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

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

Audit Committee

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

The duties of the Audit Committee shall be:

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

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

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

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

During the year ended 31 December 2019, the Audit Committee passed several written resolution and held 2 meetings with the external auditor and without the presence of the executive Directors. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

The major works performed during the Year are as follows:

- Reviewing and recommending for the Board's approval the financial results and reports for the year ended 31 December 2018;
- Reviewing and recommending for the Board's approval the interim report for the six months ended 30 June 2019;
- Recommending to the Board of the re-appointment of external auditor for the year ending 31 December 2019;

- Reviewing the Company's performance in achieving agreed corporate goals and objectives;

- Reviewing certain aspects of the internal control systems and recommending for the Board's approval of the Group; and

- Assisting the Board in meeting its responsibilities for evaluating, establishing and maintaining effective risk management and internal control systems of the Group.

The Group's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

Remuneration Committee

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

The duties of the Remuneration Committee shall be:

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

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

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

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

During the year ended 31 December 2019, the Remuneration Committee passed one written resolution and held one meeting to consider and approving the following:

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

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

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

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

	Number of Individuals
Nil – HK$2,000,000	7
HK$2,000,001 – HK$4,000,000	5

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

Nomination Committee

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

The duties of the Nomination Committee shall be:

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

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

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

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

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

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

During the year ended 31 December 2019, the Nomination Committee held one meeting to consider and approving the following:

- Reviewing the structure, size and composition of the Board;
- Assessing the independence of the independent non-executive Directors of the Company; and
- Reviewing and making recommendations to the Board on the re-election of Directors who are subject to retirement from office by rotation at the forthcoming annual general meeting of the Company.

DIRECTOR APPOINTMENT POLICY

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each of the Directors at the Board meetings, and meetings of the committees for the year ended 31 December 2019 is set out as follows:

	Attended/Eligible to attend				
Name Of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Number of meetings held	4	2	1	1	1
Executive Directors					
Mr. Yeung Shu Kin	4/4	N/A	1/1	1/1	1/1
Mr. Yeung Shu Kai	4/4	N/A	N/A	N/A	1/1
Mr. Duong Stephen Dien Sieu	4/4	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Lu Chin-Chu	4/4	N/A	N/A	N/A	1/1
Mr. Tsai Nai-Yung	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Chiu Che Chung Alan	4/4	2/2	1/1	1/1	1/1
Mr. Ko Siu Tak	4/4	2/2	1/1	N/A	1/1
Mr. Yip Kwok Cheung	4/4	2/2	N/A	1/1	1/1

In addition, the Chairman held meetings with the non-executive Directors and the independent non-executive Directors, without the presence of executive Directors, in March 2019.

Risk management and Internal Control Systems

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

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

The Board, through the Audit Committee, has delegated the internal audit function to an independent external assurance provider, who has conducted a review on the adequacy and effectiveness of the Group's risk management and internal control systems for the year 2019. The Audit Committee reviewed the effectiveness of the Group's risk management and internal control systems by reviewing the reports issued by the Group's internal audit function, and internal control self-assessment from management.

The Audit Committee reviewed and concurred with the management's confirmation that for the year ended 31 December 2019: (i) the Group's risk management and internal control systems were effective; and (ii) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal control systems.

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

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

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

Corporate Governance Report

The following highlights the key risk management measures under the Group's "Three Lines of Defence" model and enhancements made by the Group for the year 2019.

1st line of defence – Risk management

- Management conducted an annual Internal Control Self-Assessment for the year 2019. Management confirmed that appropriate internal control policies and procedures have been established and complied with.

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

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

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

2nd line of defence – Risk oversight

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

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

3rd line of defence – Independent assurance

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

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

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

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

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

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

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

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

GOING CONCERN

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

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company, Ernst & Young, in respect of audit and non-audit services provided to the Group during the year ended 31 December 2019 was analysed below:

Services Category	Fees paid/ payable *HK$'000*
Audit Services	
– Annual Audit	2,550
Non-audit services	
– Including agree-upon procedures on interim financial information and other non-assurance services	600

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

During the year ended 31 December 2019, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the website of the Company at www.pihl.hk and the website of the Stock Exchange at www.hkex.com.hk.

Environmental, Social and Governance Report

1. INTRODUCTION

1.1 Scope of this Report

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

The aim of the report is to fairly display the efforts made by Company and its subsidiaries (the "**Group**") on its corporate social responsibility in the marketplace, workplace, community and environment and cover the Group's operations in the production and sales of bags and packs for the year ended 31 December 2019.

1.2 ESG Working Group

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

1.3 Corporate Social Responsibility Vision, Policy and Strategy

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

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

1.4 Sustainability

The Group excels in fabrication of designs and crafting of bags and packs. The Group is also known to cater significant support in terms of quality supply chain management services to the renowned global brands. In between the immense industry threats, the competitiveness of the Group is retained, among others, through extensive and extensible manufacturing capacity with high product and services quality. This is further brought about through the multi-regional manufacturing platform in PRC, Vietnam and Cambodia.

In response to the increasing production costs together with the impacts under the USA-China trade war, where the Group's customers have been cautious in placing orders with the Group's PRC production bases and at the same time requesting for more production capacity from the Group's Vietnam and Cambodia production bases, the management of the Company, having reviewed its multi-regional manufacturing platform in the current year, decided to reallocate the Group's production capacity by scaling down its operation in the PRC production bases and expanding its Vietnam and Cambodia production bases. As a result, the Group's multi-regional manufacturing platform as of 31 December 2019 comprise three manufacturing facilities that account for a factory gross floor area of approximately 200,000 m^2, 231 production lines producing a volume of approximately 18,500,000 units in 2019.

The Group will closely monitor the macroeconomic and geopolitical situations, in order to adjust to market changes from time to time, with a view to achieving sustainable business growth and returns for the shareholders of the Company.

1.5 Stakeholders Engagement

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

2. PROTECTING THE ENVIRONMENT

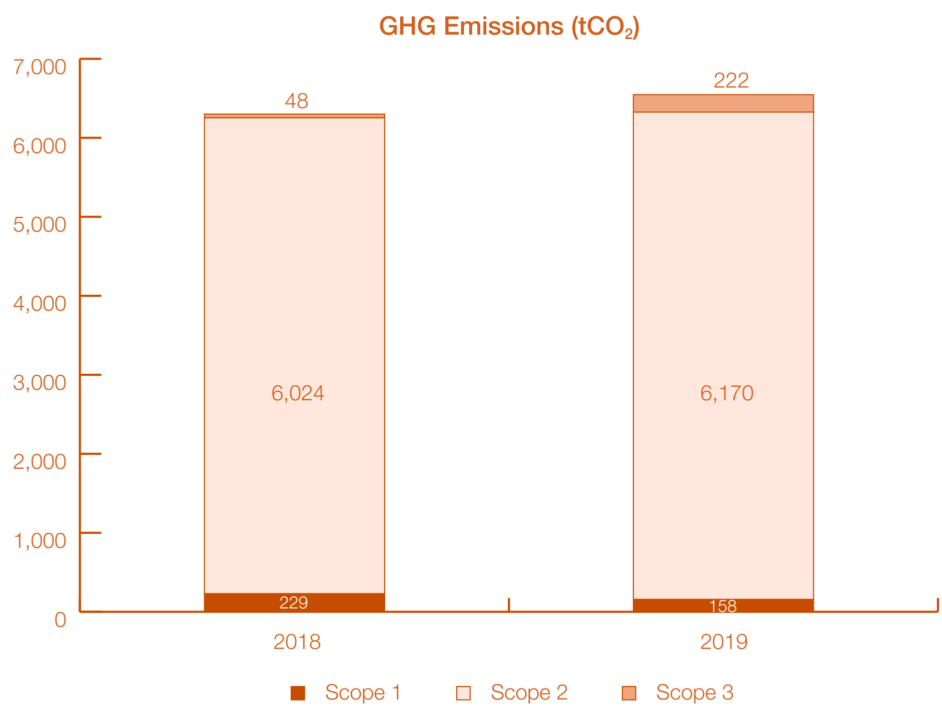
The Group is eminently devoted towards promoting a sustainable working and living environment through continuous emissions reduction and effective use of resources. This is achieved by clinging to the laws and regulations adopted by the local authorities that primarily aims to diminish the emissions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

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

2.1 GHG Emissions and Energy Consumption

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

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



	2018 tCO_2	2019 tCO_2	Variance Increase/ (decrease)
GHG emissions			
Scope 1: Direct emissions[2]			
– Carbon dioxide	229	158	(31%)
Scope 2: Indirect emissions[3]			
– Carbon dioxide	6,024	6,170	2%
Total GHG emissions from energy consumed (Scope 1+2)			
– Carbon dioxide	**6,253**	**6,328**	**1%**
Scope 3: Other Indirect emissions[4]			
– Carbon dioxide	48	222	363%
Total GHG emissions (Scope 1+2+3)	**6,301**	**6,550**	**4%**
GHG emissions intensity[5] (Scope 1+2+3)			
Per piece produced ($kgCO_2$)[5.1]	0.32	0.35	9%
Per employee (tCO_2)[5.2]	0.59	0.74	25%

Notes:

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

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

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

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

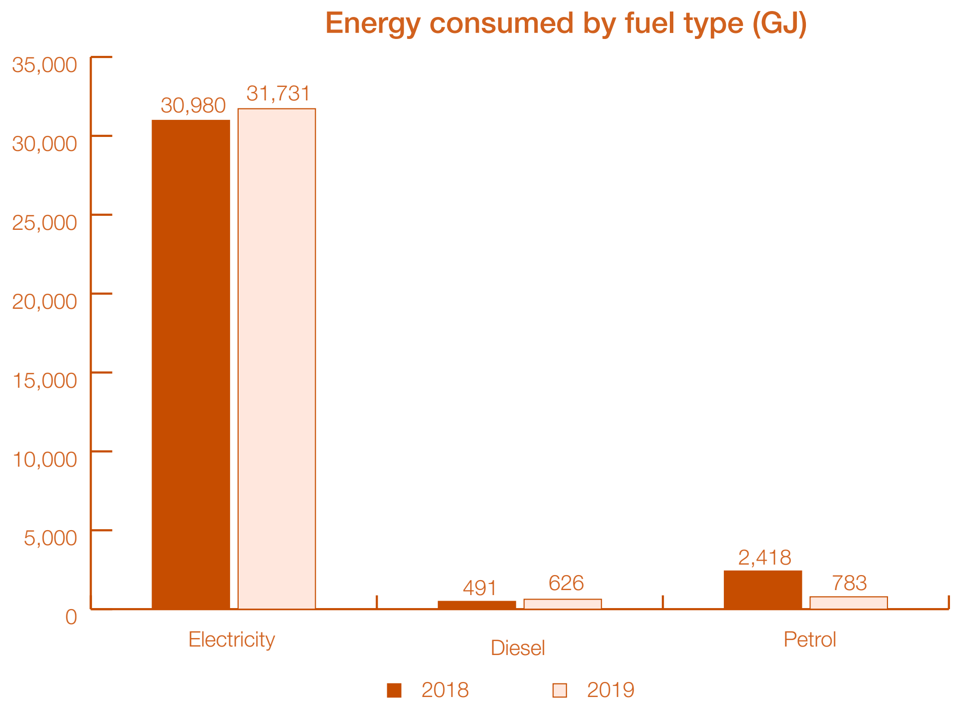
5. GHG emissions intensity is calculated by dividing the total GHG emissions by (1) the production volume; and (2) the number of employees.

   5.1. The production volume for 2018 and 2019 is approximately 20.0 million pieces and 18.5 million pieces respectively.

   5.2. The number of employees for 2018 and 2019 is approximately 10,600 and 8,800 respectively.

Energy consumption accounts for approximately 97% (2018: 99%) of the Group's total GHG emissions, which is mainly derived from the Group's use of electricity in operating machineries and other equipment during the manufacturing process and consumption of liquid fossil fuels for motor vehicles.

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



	2018 GJ	2019 GJ	Variance Increase/ (decrease)
Energy Consumption			
Electricity	30,980	31,731	2%
Diesel	491	626	27%
Petrol	2,418	783	(68%)
Total energy consumption	**33,889**	**33,140**	**(2%)**
Energy consumption intensity			
Per piece produced[1] (MJ)	1.69	1.79	6%
Per employee[2]	3.20	3.77	18%

Note:

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

Electricity is the dominant energy source of the Group's production process. The Group's electricity consumption increased slightly by 2% from 30,980 GJ in 2018 to 31,731 GJ in 2019, which was mainly caused by the expansion of the Group's Cambodia factory, as a result, the corresponding GHG emissions also increased by 2% as compared with last year, contributing to an overall increase of total GHG emissions by 4%.

Considering the usage of resources, the Group is eminently devoted towards using natural resources efficiently while emphasizing on their conservation. Actions in this regard include monitoring of electricity usage at workplace and encouraging employees to share rides, where possible. Moreover, potentiality of several other alternative ways such as improvements of air-conditioning, electrical equipment, installment of sensors and timers that aim to help the Group accomplish its environmental agenda were assessed and implemented where feasible. As a result of the Group's effort in energy conservation, there is no significant change in the Group's overall energy consumption between 2018 and 2019.

The Group's energy consumption intensity and GHG emissions intensity per (i) production volume, increased by 6% and 9% respectively compared with last year and (ii) employee, increased by 18% and 25% respectively compared with last year, which was mainly as a result of the set-up, trainings and trial runs in relation to our expansion of Cambodia factory plant prior to it reaching optimal production efficiency.

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

2.2 Waste Management

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

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

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

	2018 tonne	2019 tonne	Variance Increase/ (decrease)
Total hazardous Waste	57	61	7%
Hazardous waste intensity			
Per piece produced	0	0	0%
Per employee (kg)	5.38	6.93	29%

Note:

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

The Group produced 61 tonnes of hazardous waste in comparison to 57 tonnes in 2018, mainly as a result of the Group's expansion in the number of production lines in Vietnam.

	2018 tonne	2019 tonne	Variance Increase/ (decrease)
Non-Hazardous Waste			
Factory and office daily waste	2,206	1,988	(10%)
Non-hazardous waste intensity			
Per piece produced (kg)[1]	0.11	0.11	0%
Per employee[2]	0.21	0.23	10%

Note:

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

Non-hazardous wastes produced by the Group decreased by 10% from 2,206 tonnes in 2018 to 1,988 tonnes in 2019 which was mainly benefited from the lean manufacturing model of our Vietnam and Cambodia production bases.

2.3 Use of resources

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

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

Water management

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

	2018 tonne	**2019 tonne**	**Variance Increase/ (decrease)**
Water consumption	387,764	294,516	(24%)
Water intensity			
Per piece[1]	0.02	0.02	0%
Per employee[2]	36.58	33.47	(9%)

Note:

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

Water is mainly consumed in its office premises for drinking and general cleaning and in factory premises for staff canteens, dormitories and toilets. Hence, the Group does not have any concern in sourcing water that is fit for such purpose. The Group's overall water consumption decreased by 24% from 387,764 tonnes in 2018 to 294,516 tonnes in 2019, mainly as a result of the decrease in the Group's multi-regional manufacturing platform. The Group will continue to devote on-going efforts to promote energy and water-saving behavior under its overall environmental management agenda.

Packaging materials

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

	2018 tonne	2019 tonne	Variance Increase/ (decrease)
Packaging materials	2,467	2,990	21%
Packaging materials intensity			
Per piece (kg)	0.12	0.16	33%

Note:

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

Total packaging materials used for finished goods of the Group increased by 21% from 2,467 tonnes in 2018 to 2,990 tonnes in 2019. While the Group makes sincere efforts in terms of reducing packaging materials, our productions are made to the specifications of our customers. The Group will continue to encourage our customers to use lighter packaging, where possible.

2.4 Regulation and Compliance

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

3. SOCIAL

3.1 Employment and Labour Practices

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

3.2 Employment

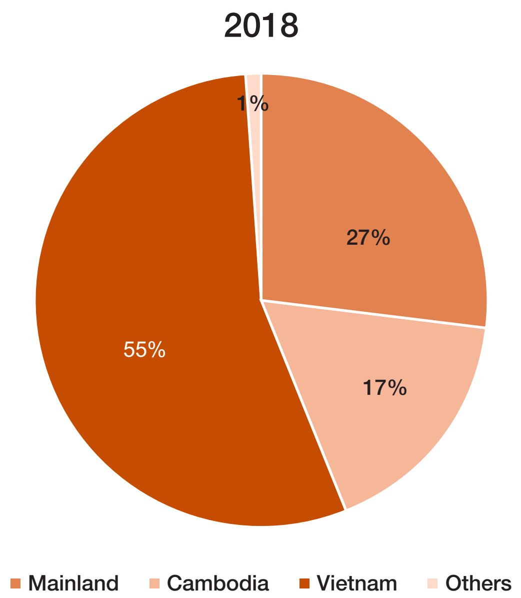
The Group has several non-discriminatory policies and practices well in place, to ensure equal opportunities across all sex, ethnicity, race, age, and religion. This opens avenues for every individual being rendered with equal opportunities. Employing of individuals and promotions of existing employees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

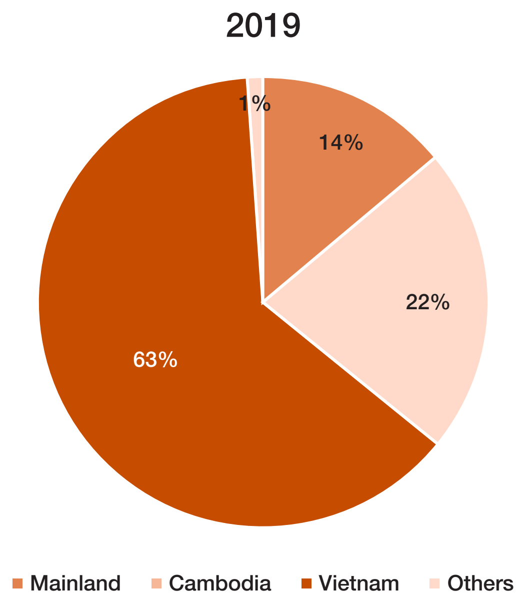
The enrollment of new employees is thus guided by policy that allows proficient aspirants who possess the appropriate outlook toward the job profile and also endowed with the required qualifications, experience and merits. The Group strictly follows a non-discriminatory policy which priorities only talent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

As per the records till 31 December 2019, the number of employees in the Group includes approximately 8,800 employees, of which 26% are male and 74% are female. The distribution of employee nation wise includes 14% employees in the PRC, 63% are located in Vietnam, 22% are located in Cambodia and the rest in other locations.

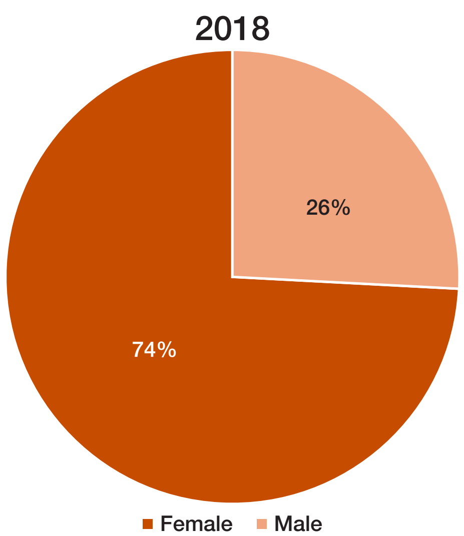
The Group offers salaries above the local minimum wage regulation. No non-compliance with the laws and regulations relating to labour and employment that have resulted or may result in significant impact on the Company was identified during the year.

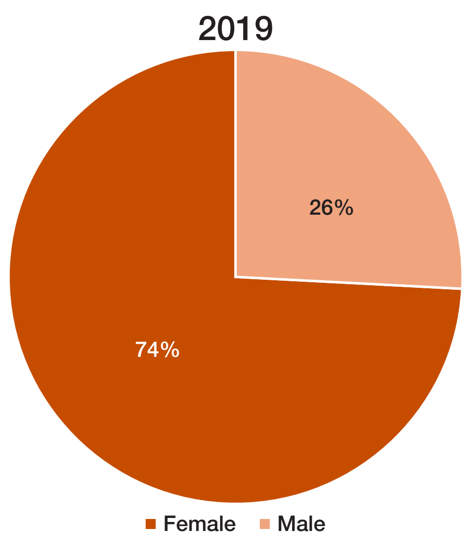
Number of Employees by Region





Number of Employees by Gender





3.3 Health and Safety

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

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

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

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

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

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

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

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

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

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

3.4 Development and Training

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

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

3.5 Labour Standards

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

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

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

4. OPERATING PRACTICES

4.1 Supply Chain Management

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

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

4.2 Product Responsibility

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

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

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

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

4.3 Anti-Corruption

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

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

5. COMMUNITY

5.1 Community Investment

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

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Prosperous Industrial (Holdings) Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 65 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS *(continued)*

Key audit matter

Income tax estimation

The Group operates in a number of countries or jurisdictions where income tax regulations and practices are different and there were transfer pricing arrangements amongst members of the Group with respect to the Group's manufacturing and supply chain operations during the year. In addition, the Group may be subject to enquiries or tax audits from time to time by tax authorities on a range of tax matters during the normal course of business. These result in complexities of the Group's income tax provision estimation.

The estimation of income tax provision was complex and involved significant management judgement to determine whether the Group's intercompany transactions were subject to tax and the applicable tax rates for these transactions, taking into consideration the relevant tax regulations, interpretations and practices prevailing in the jurisdictions in which the Group operates.

Given the complexity and judgemental nature of the income tax provision, we considered this a key audit matter.

Related disclosures are included in notes 3, 4, 12 and 21 to the consolidated financial statements.

How our audit addressed the key audit matter

As part of our audit procedures, we obtained an understanding of and evaluated the assumptions used by management in the estimation of the Group's income tax provision, with the assistance of our internal tax specialists. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment	
The carrying amount of property, plant and equipment of the Group as at 31 December 2019 was US$28,306,000, which represented 15% of the Group's total assets and mainly represented the Group's production facilities in various countries. Management is required to perform impairment assessment on an asset if there is an indicator that the asset's recoverable amount may be lower than its carrying amount. The Group performed an impairment assessment of its property, plant and equipment in accordance with Hong Kong Accounting Standard ("**HKAS**") 36 *Impairment of Assets* issued by the HKICPA. In determining whether there is an impairment indicator, management considers the production plan and operating performance of individual cash-generating units ("**CGUs**") which can generate independent cash flows, after taking into consideration, inter alia, their respective production capacities, forecast production plans, expected sales orders and profitability of the productions from the Group's perspective. Based on the results of the impairment assessment, an impairment loss of US$162,000 against the Group's property, plant and equipment was made during the year ended 31 December 2019. Given the complexity and judgemental nature of the assessment, we considered this a key audit matter. Related disclosures are included in notes 3, 4, and 15 to the consolidated financial statements.	As part of our audit procedures, we obtained an understanding of and evaluated the inputs used by management in the assessment of the existence of any impairment indicators on the Group's property, plant and equipment. For the CGUs that have impairment indicators, we checked the assumptions and production plan used by management in determining the recoverable amount of the related CGUs. We also involved our internal valuation specialists to assist us in evaluating the assumptions, discount rate and methodologies used by the Group in calculation of value in use using the discounted cash flow model, and compared the key assumptions used in the model to historical data of the Group and our understanding of the market information and economic conditions. We also assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
REVENUE	6	**223,161**	221,849
Cost of sales		**(175,870)**	(172,374)
Gross profit		**47,291**	49,475
Other income and gains, net	7	**2,934**	2,291
Selling and distribution expenses		**(15,926)**	(15,401)
Administrative expenses		**(28,114)**	(26,348)
Other expenses, net		**(3,123)**	(887)
Finance costs	8	**(595)**	(63)
PROFIT BEFORE TAX	9	**2,467**	9,067
Income tax	12	**(3,033)**	(1,697)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**(566)**	7,370
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods			
– Exchange differences on translation of foreign operations		**(481)**	(2,101)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods – Defined benefit plan:			
Actuarial gain	26(a)	**29**	288
Income tax effect	25	**(4)**	(48)
		25	240
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		**(456)**	(1,861)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**(1,022)**	5,509
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic and diluted (US cent)		**(0.05)**	0.76

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**28,306**	40,187
Right-of-use assets	16(b)	**21,878**	–
Prepaid land lease payments	16(a)	**–**	3,185
Intangible assets	17	**502**	831
Equity investment at fair value through other comprehensive income	18	**2**	2
Prepayments, deposits and other receivables	21	**1,931**	1,804
Deferred tax assets	25	**209**	832
Total non-current assets		**52,828**	46,841
CURRENT ASSETS			
Prepaid land lease payments	16(a)	**–**	104
Inventories	19	**33,339**	34,924
Trade and bills receivables	20	**42,252**	35,666
Prepayments, deposits and other receivables	21	**9,012**	8,694
Income tax recoverable		**71**	71
Cash and bank balances	22	**51,060**	63,772
Total current assets		**135,734**	143,231
CURRENT LIABILITIES			
Trade and bills payables	23	**17,620**	19,065
Other payables and accruals	24	**15,968**	17,865
Lease liabilities	16(c)	**1,893**	–
Income tax payables		**10,223**	9,754
Total current liabilities		**45,704**	46,684
NET CURRENT ASSETS		**90,030**	96,547
TOTAL ASSETS LESS CURRENT LIABILITIES		**142,858**	143,388
NON-CURRENT LIABILITIES			
Defined benefit obligations	26(a)	**749**	787
Lease liabilities	16(c)	**7,664**	–
Total non-current liabilities		**8,413**	787
Net assets		**134,445**	142,601
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Issued capital	27	**1,436**	1,436
Reserves	29(a)	**133,009**	141,165
Total equity		**134,445**	142,601

YEUNG Shu Kin
Director

YEUNG Shu Kai
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2019

	Notes	Attributable to shareholders of the Company							
		Issued capital US$'000	Share premium account US$'000	Capital reserve US$'000	Defined benefit plan reserve US$'000	Exchange fluctuation reserve US$'000	Statutory reserves US$'000 (note 29(c))	Retained profits US$'000	Total equity US$'000
Year ended 31 December 2019									
At 1 January 2019		1,436	28,633	19,052	366	(28)	262	92,880	142,601
Loss for the year		–	–	–	–	–	–	(566)	(566)
Other comprehensive income/(loss) for the year:									
– Exchange differences on translation of foreign operations		–	–	–	–	(481)	–	–	(481)
– Actuarial gain of a defined benefit plan, net of income tax		–	–	–	25	–	–	–	25
Total comprehensive income/(loss) for the year		–	–	–	25	(481)	–	(566)	(1,022)
Transfer from retained profits		–	–	–	–	–	12	(12)	–
Final 2018 dividend	13	–	–	–	–	–	–	(2,140)	(2,140)
Special 2018 dividend	13	–	–	–	–	–	–	(4,994)	(4,994)
At 31 December 2019		1,436	28,633*	19,052*	391*	(509)*	274*	85,168*	134,445
Year ended 31 December 2018									
At 1 January 2018		1,000	–	19,052	126	2,073	262	85,510	108,023
Profit for the year		–	–	–	–	–	–	7,370	7,370
Other comprehensive income/(loss) for the year:									
– Exchange differences on translation of foreign operations		–	–	–	–	(2,101)	–	–	(2,101)
– Actuarial gain of a defined benefit plan, net of income tax		–	–	–	240	–	–	–	240
Total comprehensive income/(loss) for the year		–	–	–	240	(2,101)	–	7,370	5,509
Issue of new shares pursuant to a capitalisation issue in connection with the Global Offering#	27(c)	77	(77)	–	–	–	–	–	–
Issue of new shares pursuant to the Global Offering	27(d)	359	31,790	–	–	–	–	–	32,149
Expenses incurred in connection with the Global Offering	27(d)	–	(3,080)	–	–	–	–	–	(3,080)
At 31 December 2018		1,436	28,633*	19,052*	366*	(28)*	262*	92,880*	142,601

During the year ended 31 December 2018, the Company made an offer to the public for subscription of its new shares and undertook an international placing of its new shares (collectively, the "**Global Offering**") in connection with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Dealing of the Company's shares on the Stock Exchange commenced on 13 July 2018.

.* These reserve accounts comprise the consolidated reserves of US$133,009,000 (2018: US$141,165,000) in the consolidated statement of financial position as at 31 December 2019.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,467**	9,067
Adjustments for:			
Interest income	7	**(559)**	(462)
Finance costs	8	**595**	63
Depreciation of property, plant and equipment	9	**4,593**	5,243
Depreciation of right-of-use assets/ recognition of prepaid land lease payments	9	**2,627**	109
Amortisation of intangible assets	9	**441**	180
Dividend income from an equity investment at fair value through other comprehensive income	7	**–**	(3)
Loss on disposal of items of property, plant and equipment, net	9	**1,336**	79
Gain on termination of a lease	9	**(3)**	–
Impairment/(reversal of impairment) of trade receivables	9	**841**	(32)
Impairment of property, plant and equipment, net	9	**162**	382
Write-off of obsolete inventories	9	**33**	526
		12,533	15,152
Decrease/(increase) in inventories		**1,777**	(2,205)
Decrease/(increase) in trade and bills receivables		**(7,421)**	8,382
Decrease/(increase) in prepayments, deposits and other receivables		**(1,154)**	1,837
Decrease in trade and bills payables		**(1,494)**	(4,422)
Decrease in other payables and accruals		**(1,891)**	(5,321)
Decrease in defined benefit obligations		**(22)**	–
Cash generated from operations		**2,328**	13,423
Income tax paid		**(1,892)**	(4,841)
Net cash flows from operating activities		**436**	8,582
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		**–**	3
Purchases of items of property, plant and equipment		**(4,349)**	(10,068)
Proceeds from disposal of items of property, plant and equipment		**887**	330
Additions to intangible assets		**(111)**	(149)
Gross increase in time deposits with maturity of more than three months when acquired		**(8,346)**	(4,505)
Interest received		**559**	462
Net cash flows used in investing activities		**(11,360)**	(13,927)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27(d)	–	32,149
Share issue expenses	27(d)	–	(3,080)
Finance costs paid		(595)	(63)
Principal portion of lease payments		(1,705)	–
Dividend paid		(7,134)	(35,000)
Net cash flows used in financing activities		(9,434)	(5,994)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(20,358)	(11,339)
Cash and cash equivalents at beginning of year		59,267	71,321
Effect of foreign exchange rate changes, net		(700)	(715)
CASH AND CASH EQUIVALENTS AT END OF YEAR		38,209	59,267
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits	22	36,735	56,657
Time deposits	22	14,325	7,115
Cash and cash equivalents as stated in the consolidated statement of financial position		51,060	63,772
Less: Time deposits with maturity of more than three months when acquired		(12,851)	(4,505)
Cash and cash equivalents as stated in the consolidated statement of cash flows		38,209	59,267

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2019 are as follows:

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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
廣州坑頭手袋旅行用品有限公司^@	PRC/Mainland China	US$5,700,000 (2018: US$2,000,000)	–	100	Manufacturing and sale of sport bags, handbags and luggage bags
東莞澤榮箱包有限公司^@	PRC/Mainland China	HK$27,000,000	–	100	Manufacturing and sale of sport bags, handbags and luggage bags
東莞精博旅行用品有限公司^@#	PRC/Mainland China	HK$10,000,000	–	100	Manufacturing and sale of sport bags, handbags and luggage bags
Starite (Cambodia) Co., Ltd@	Cambodia	US$10,000,000 (2018: US$5,000,000)	–	100	Manufacturing and sale of sport bags, handbags and luggage bags
Prosperous Enterprises (Taiwan) Limited ("**PEL**")@	Taiwan	NTD30,000,000	100	–	Provision of raw material sourcing services and retail sale of sport bags, handbags and luggage bags

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

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

Under the progress of deregistration.

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

2.1 BASIS OF PREPARATION

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19, and HKAS 28, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

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

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land and buildings, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and were separately disclosed in the statement of financial position. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of US$9,313,000 that were reclassified from property, plant and equipment, reclassification of prepaid land lease payments of US$3,289,000 and reclassification of prepaid rent of US$274,000 to right-of-use assets.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Relying on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before I January 2019 as an alternative to performing an impairment review; and
- Excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

(a) *(continued)*

As a lessee – Leases previously classified as operating leases *(continued)*

Impact on transition *(continued)*

Financial impacts at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) US$'000
Assets	
Increase in right-of-use assets	22,793
Decrease in property, plant and equipment	(9,313)
Decrease in prepaid land lease payments	(3,289)
Decrease in prepayment, deposits and other receivables	(274)
Increase in total assets	9,917
Liabilities	
Increase in lease liabilities and total liabilities	9,917

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	US$'000
Operating lease commitments as at 31 December 2018	5,698
Weighted average incremental borrowing rate as at 1 January 2019	5.79%
Discounted operating lease commitments as at 1 January 2019	3,314
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(218)
Add: Payments for optional extension periods not recognised as at 31 December 2018	6,821
Lease liabilities as at 1 January 2019	9,917

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

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intra-group sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

HKFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 Insurance Contracts. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

HKFRS 17 is effective for reporting periods beginning on or after 1 January 2021 (see commentary on page (49) about the effective date). Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. The standard is not expected to have any impact on the Group.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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

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

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

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

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

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

Intangible assets

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

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

Computer software	3 to 8 years
Licence	2 years

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

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

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Leasehold land and buildings	2 to 44 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

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

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of motor vehicles, staff quarters and warehouses that are considered to be of low value.

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

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

Investments and other financial assets *(continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Derecognition of financial assets

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

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

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

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

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

General approach

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

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

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

Impairment of financial assets *(continued)*

General approach *(continued)*

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

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

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

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

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

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

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

Income tax *(continued)*

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(a) *Sale of sport bags, handbags and luggage bags*

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

(b) *Subcontracting services*

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

Interest income

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

Dividend income

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

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

Employee benefits

Defined contribution plans

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

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

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

Defined benefit plan

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

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

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

Employee benefits *(continued)*

Defined benefit plan *(continued)*

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

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

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

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

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

Foreign currencies

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

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

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

The functional currencies of certain subsidiaries are currencies other than the US dollar. As at the end of each reporting period, the assets and liabilities of these entities are translated into the US dollar at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into the US dollar at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in profit or loss. Since more sale transactions in Starite Vietnam were denominated in US dollar, the directors have determined the change of the functional currency of Starite Vietnam from Vietnam Dong to US dollar starting from 1 January 2019 and such change was applied prospectively from the date of change.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into the US dollar at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into the US dollar at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Useful lives and residual values of property, plant and equipment

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

Impairment of non-financial assets

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

Income tax

The Group is subject to income taxes in Hong Kong, Mainland China, Vietnam and overseas. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain during the ordinary course of business. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2019 was US$10,223,000 (2018: US$9,754,000).

5. OPERATING SEGMENT INFORMATION

Operating segment information

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

Geographical information

(a) Revenue from external customers

	2019 US$'000	2018 US$'000
The United States of America (the "**USA**")	**81,916**	87,062
Mainland China	**37,424**	38,279
Belgium	**22,114**	14,589
Japan	**19,045**	16,333
Netherlands	**13,787**	18,306
Hong Kong	**4,737**	3,528
Others	**44,138**	43,752
	223,161	221,849

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

(b) Non-current assets

	2019 US$'000	2018 US$'000
Mainland China	**18,355**	17,753
Vietnam	**15,755**	14,584
Cambodia	**11,348**	6,701
Taiwan	**3,755**	3,687
Others	**1,669**	1,699
	50,882	44,424

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

5. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

During the year, the Group had transactions with three (2018: three) external customers which individually contributed over 10% of the Group's total revenue. The revenue generated from sales to each of these customers is set out below:

	2019 US$'000	2018 US$'000
Customer A	**51,999**	47,134
Customer B	**49,368**	43,797
Customer C	**47,595**	42,509

6. REVENUE

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

(a) Disaggregation of revenue

	2019 US$'000	2018 US$'000
By geographical markets		
The USA	**81,916**	87,062
Mainland China	**37,424**	38,279
Belgium	**22,114**	14,589
Japan	**19,045**	16,333
Netherlands	**13,787**	18,306
Hong Kong	**4,737**	3,528
Others	**44,138**	53,752
Total revenue from contracts with customers	**223,161**	221,849
By product category		
Outdoor and sporting bags	**148,963**	137,348
Functional bags	**39,261**	47,252
Fashion and casual bags	**29,709**	31,765
Others	**5,228**	5,484
Total revenue from contracts with customers	**223,161**	221,849
By timing of revenue recognition		
Total revenue from contracts with customers – at a point in time	**223,161**	221,849

The revenue recognised during the year ended 31 December 2019 that was included in contract liabilities as at 1 January 2019 amounted to US$572,000 (2018: US$283,000). No revenue recognised during the years ended 31 December 2019 and 2018 related to performance obligations satisfied or partially satisfied in previous years.

6. REVENUE *(continued)*

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

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

7. OTHER INCOME AND GAINS, NET

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

	2019 US$'000	2018 US$'000
Other income		
Bank interest income	559	462
Dividend income of an equity investment at fair value through other comprehensive income	–	3
Subcontracting service income	–	81
Government grants*	177	128
Compensation income	107	22
Charges levied on customers	516	620
Others	405	283
	1,764	1,599
Gains, net		
Foreign exchange gains, net	474	494
Gain on sale of scrap materials	696	198
	1,170	692
Other income and gains, net	2,934	2,291

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

8. FINANCE COSTS

	2019 US$'000	2018 US$'000
Factoring fee on certain designated trade receivables (note 20(d))	2	63
Interest on lease liabilities	566	–
Others	27	–
	595	63

9. PROFIT BEFORE TAX

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

	Notes	2019 US$'000	2018 US$'000
Cost of inventories sold		**172,207**	169,218
Depreciation of property, plant and equipment	15	**4,593**	5,243
Less: Amount included in cost of inventories sold		**(2,210)**	(3,120)
		2,383	2,123
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	16(a), 16(b)	**2,627**	109
Less: Amount included in cost of inventories sold		**(1,443)**	–
		1,184	109
Amortisation of intangible assets*	17	**441**	180
Less: Amount included in cost of inventories sold		**(10)**	(36)
		431	144
Minimum lease payments under operating leases		**–**	3,064
Lease payments not included in the measurement of lease liabilities	16(d)	**1,010**	–
Gain on termination of a lease	16(d)	**(3)**	–
Auditor's remuneration		**339**	342
Employee benefit expense (including directors' remuneration):			
Salaries, allowances and benefits in kind		**70,503**	65,217
Defined contribution scheme contributions		**1,530**	2,100
Net benefit expense of a defined benefit plan	26(a)	**(4)**	17
		72,029	67,334
Less: Amount included in cost of inventories sold		**(47,475)**	(47,162)
		24,554	20,172
Research and development costs		**3,531**	3,907
Write-off of obsolete inventories		**33**	526
Impairment/(reversal of impairment) of trade receivables**	20(c)	**841**	(32)
Loss on disposal/write-off of items of property, plant and equipment, net**		**1,336**	79
Impairment of items of property, plant and equipment, net**	15(a)	**162**	382
Listing expenses		**–**	2,488

9. PROFIT BEFORE TAX *(continued)*

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

	2019 US$'000	2018 US$'000
Cost of sales	**10**	36
Selling and distribution expenses	**47**	37
Administrative expenses	**384**	107
	441	180

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

10. DIRECTORS' REMUNERATION

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

	2019 US$'000	2018 US$'000
Fees	**69**	36
Other emoluments:		
Salaries, allowances and benefits in kind	**518**	457
Discretionary and performance related bonuses	**252**	252
Defined contribution scheme contributions	**4**	8
	774	717
	843	753

10. DIRECTORS' REMUNERATION *(continued)*

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

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary and performance related bonuses US$'000	Defined contribution scheme contributions US$'000	Total US$'000
Year ended 31 December 2019					
Executive directors					
Mr. Yeung Shu Kin	–	262	110	–	372
Mr. Yeung Shu Kai	–	182	110	2	294
Mr. Duong Stephen Dien Sieu*	–	74	32	2	108
Non-executive directors					
Mr. Lu Chin Chu**	–	–	–	–	–
Mr. Tsai Nai Yung	–	–	–	–	–
Independent non-executive directors					
Mr. Chiu Che Chung Alan	23	–	–	–	23
Mr. Ko Siu Tak	23	–	–	–	23
Mr. Yip Kwok Cheung	23	–	–	–	23
	69	518	252	4	843

* Resigned as executive director on 31 March 2020

** Resigned as non-executive director on 31 March 2020

10. DIRECTORS' REMUNERATION *(continued)*

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

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary and performance related bonuses US$'000	Defined contribution scheme contributions US$'000	Total US$'000
Year ended 31 December 2018					
Executive directors					
Mr. Yeung Shu Kin@	–	231	110	–	341
Mr. Yeung Shu Kai@	–	151	110	5	266
Mr. Duong Stephen Dien Sieu@	–	75	32	3	110
Non-executive directors					
Mr. Lu Chin Chu△	–	–	–	–	–
Mr. Tsai Nai Yung△	–	–	–	–	–
Independent non-executive directors					
Mr. Chiu Che Chung Alan#	12	–	–	–	12
Mr. Ko Siu Tak#	12	–	–	–	12
Mr. Yip Kwok Cheung#	12	–	–	–	12
	36	457	252	8	753

@ Redesignated as executive directors on 29 March 2018

△ Redesignated as non-executive directors on 29 March 2018

\# Appointed on 19 June 2018

Notes:

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

(b) There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

(c) Subsequent to 31 December 2019, Mr. Yeung Wang Tony was appointed as an executive director and Mr. Chau Chi Ming was appointed as a non-executive director on 31 March 2020.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2019 included two (2018: two) directors of the Company, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2018: three) non-director highest paid employees for the year are as follows:

	2019 US$'000	2018 US$'000
Salaries, allowances and benefits in kind	691	590
Discretionary and performance related bonuses	413	413
Defined contribution scheme contributions	6	6
	1,110	1,009

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

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

12. INCOME TAX

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

	2019 US$'000	2018 US$'000
Current:		
Charge for the year	2,471	2,264
Underprovision/(overprovision) in prior years	(110)	133
Withholding tax on interest income from intercompany loans	–	22
	2,361	2,419
Deferred tax (note 25)	672	(722)
Total tax expense for the year	3,033	1,697

12. INCOME TAX *(continued)*

Notes:

(a) Applicable income tax rates

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

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

	2019	2018
	%	%
Hong Kong	**16.5**	16.5
Vietnam#	**20**	20
Mainland China	**25**	25
Cambodia*	**20**	20

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

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

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

	2019	2018
	US$'000	US$'000
Profit before tax	**2,467**	9,067
Tax expense at the statutory tax rates	**107**	1,893
Adjustments in respect of current tax of previous periods	**129**	133
Lower concessionary tax rates enacted by local authorities	**(944)**	(1,209)
Withholding tax on interest income from intercompany loans	**–**	22
Income not subject to tax	**(237)**	(158)
Expenses not deductible for tax	**3,106**	154
Tax effect of unrecognised temporary differences	**(83)**	(14)
Tax losses not recognised as deferred tax assets	**1,001**	876
Tax losses utilised from previous periods	**(46)**	–
Tax expense at the Group's effective tax rate of 122.3% (2018: 18.7%)	**3,033**	1,697

13. DIVIDENDS

	2019 US$'000	2018 US$'000
Dividends paid during the year:		
Final dividend for 2018 – HK1.5 cents per ordinary shares	**2,140**	–
Special dividend for 2018 – HK3.5 cents per ordinary shares	**4,994**	–
	7,134	–
Final – nil (2018: HK1.5 cents per ordinary share)	**–**	2,168
Special – nil (2018: HK3.5 cents per ordinary share)	**–**	5,058
	–	7,226

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic loss (2018: earnings) per share amounts is based on the loss for the year attributable to shareholders of the Company of US$566,000 (2018: profit of US$7,370,000), and the weighted average number of ordinary shares in issue of 1,120,000,000 (2018: 972,712,329) during the year.

No adjustment has been made to the basic loss (2018: earnings) per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during each of these years.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land US$'000	Buildings US$'000	Leasehold improvements US$'000	Machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Year ended 31 December 2019								
At 1 January 2019 (restated):								
Cost	2,243	12,033	15,385	18,928	7,783	1,224	112	57,708
Accumulated depreciation and impairment	–	(2,394)	(7,471)	(10,873)	(5,388)	(708)	–	(26,834)
Net carrying amount	2,243	9,639	7,914	8,055	2,395	516	112	30,874
At 31 December 2018, net of accumulated depreciation and impairment	2,243	18,952	7,914	8,055	2,395	516	112	40,187
Effect of adoption of HKFRS 16 (note 2.2)	–	(9,313)	–	–	–	–	–	(9,313)
At 1 January 2019 (restated)	2,243	9,639	7,914	8,055	2,395	516	112	30,874
Additions	–	–	640	2,665	820	6	297	4,428
Transfer	–	90	–	–	–	–	(90)	–
Depreciation provided during the year	–	(441)	(1,419)	(1,734)	(908)	(91)	–	(4,593)
Reversal of impairment/(impairment) recognised during the year (note (a))	–	(240)	(170)	222	26	–	–	(162)
Disposals/write-off	–	–	(806)	(986)	(89)	(23)	(319)	(2,223)
Exchange realignment	46	(58)	(17)	8	7	(4)	–	(18)
At 31 December 2019, net of accumulated depreciation and impairment	2,289	8,990	6,142	8,230	2,251	404	–	28,306
At 31 December 2019:								
Cost	2,289	11,763	14,588	19,518	8,068	1,179	–	57,405
Accumulated depreciation and impairment	–	(2,773)	(8,446)	(11,288)	(5,817)	(775)	–	(29,099)
Net carrying amount	2,289	8,990	6,142	8,230	2,251	404	–	28,306

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

	Freehold land US$'000	Leasehold land and buildings US$'000 (note 16(b)(i))	Leasehold improvements US$'000	Machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Year ended 31 December 2018								
At 1 January 2018:								
Cost	2,313	23,343	13,262	16,960	7,155	1,254	–	64,287
Accumulated depreciation	–	(3,104)	(7,344)	(11,287)	(5,462)	(652)	–	(27,849)
Net carrying amount	2,313	20,239	5,918	5,673	1,693	602	–	36,438
At 1 January 2018, net of accumulated depreciation	2,313	20,239	5,918	5,673	1,693	602	–	36,438
Additions	–	–	3,807	4,735	2,133	55	337	11,067
Transfer	–	132	92	–	–	–	(224)	–
Depreciation provided during the year	–	(684)	(1,546)	(1,866)	(1,033)	(114)	–	(5,243)
Impairment recognised during the year (note (a))	–	–	(124)	(231)	(27)	–	–	(382)
Disposals/write-off	–	–	(10)	(67)	(325)	(7)	–	(409)
Exchange realignment	(70)	(735)	(223)	(189)	(46)	(20)	(1)	(1,284)
At 31 December 2018, net of accumulated depreciation and impairment	2,243	18,952	7,914	8,055	2,395	516	112	40,187
At 31 December 2018:								
Cost	2,243	22,590	15,385	18,928	7,783	1,224	112	68,265
Accumulated depreciation and impairment	–	(3,638)	(7,471)	(10,873)	(5,388)	(708)	–	(28,078)
Net carrying amount	2,243	18,952	7,914	8,055	2,395	516	112	40,187

Note:

(a) There was a change in the business plan of the Group during the current and last years and certain production plants located in Mainland China were closed during the current and last years. Based on the results of the impairment assessment made by the management of the Company, net impairment loss of US$162,000 (2018: US$382,000) was recognised against the property, plant and equipment of the relevant cash-generating units during the year.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with a lease period of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of other land and buildings generally have lease terms between 2 and 44 years, while motor vehicles, staff quarters, warehouses and other equipment generally have lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

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

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments US$'000	**Leasehold land and buildings** US$'000 (note (i))	**Total** US$'000
As at 1 January 2019	3,289	19,504	22,793
Additions	–	2,034	2,034
Termination of lease	–	(257)	(257)
Depreciation charge	(104)	(2,523)	(2,627)
Exchange realignment	(44)	(21)	(65)
As at 31 December 2019	3,141	18,737	21,878

16. LEASES *(continued)*

The Group as a lessee *(continued)*

(b) ***Right-of-use assets*** *(continued)*

Note:

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

The lease period of these factory buildings and related leasehold land shall expire on 11 January 2055, which represents the end of the lease period of the leasehold land use rights owned by the fellow subsidiary of that shareholder.

In the opinion of the directors, these lease arrangements are finance leases in nature and accordingly, such factory buildings and related leasehold land were accounted for as property, plant and equipment of the Group in prior years. These assets included in the leasehold land and buildings as at 31 December 2018 amounted to US$9,313,000 and was reclassified from property, plant and equipment to right-of-use assets upon adoption of HKFRS 16. The carrying amount of these right-of-use assets as at 31 December 2019 was US$9,089,000.

16. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities US$'000
Carrying amount at 1 January	9,917
New leases	1,670
Termination of lease	(260)
Accretion of interest recognised during the year	566
Payments	(2,271)
Exchange realignment	(65)
Carrying amount at 31 December	9,557
Analysed into repayable:	
Within one year	1,893
In the second year	1,861
In the third to fifth years, inclusive	5,054
Beyond five years	749
	9,557
Less: Current portion	(1,893)
Non-current portion	7,664

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

(d) The expenses/(gain) recognised in profit or loss in relation to leases are as follows:

	2019 US$'000
Interest on lease liabilities	566
Depreciation charge of right-of-use assets	2,627
Gain on termination of a lease	(3)
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	683
Expense relating to leases of low-value assets (included in administrative expenses)	232
Expense relating to leases of low-value assets (included in selling expenses)	95
Total amount recognised in profit or loss	4,200

17. INTANGIBLE ASSETS

	Computer software US$'000	Licence US$'000	Club membership US$'000	Total US$'000
Year ended 31 December 2019				
At 1 January 2019:				
Cost	1,072	492	74	1,638
Accumulated amortisation	(804)	(3)	–	(807)
Net carrying amount	268	489	74	831
Net carrying amount:				
At 1 January 2019	268	489	74	831
Additions	111	–	–	111
Amortisation provided during the year	(197)	(244)	–	(441)
Exchange realignment	1	–	–	1
At 31 December 2019	183	245	74	502
At 31 December 2019:				
Cost	1,172	492	74	1,738
Accumulated amortisation	(989)	(247)	–	(1,236)
Net carrying amount	183	245	74	502
Year ended 31 December 2018				
At 1 January 2018:				
Cost	977	492	74	1,543
Accumulated amortisation	(669)	–	–	(669)
Net carrying amount	308	492	74	874
Net carrying amount:				
At 1 January 2018	308	492	74	874
Additions	149	–	–	149
Amortisation provided during the year	(177)	(3)	–	(180)
Exchange realignment	(12)	–	–	(12)
At 31 December 2018	268	489	74	831
At 31 December 2018:				
Cost	1,072	492	74	1,638
Accumulated amortisation	(804)	(3)	–	(807)
Net carrying amount	268	489	74	831

18. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 US$'000	2018 US$'000
Equity investment at fair value through other comprehensive income		
Unlisted equity investment, at fair value:		
友勁投資股份有限公司	**2**	2

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

19. INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials	**11,351**	10,575
Work in progress	**6,980**	8,216
Finished goods	**15,008**	16,133
	33,339	34,924

20. TRADE AND BILLS RECEIVABLES

	Notes	2019 US$'000	2018 US$'000
Trade receivables	(a)	**43,395**	35,974
Bills receivable		**6**	–#
Impairment	(c)	**(1,149)**	(308)
		42,252	35,666

Less than US$500.

Notes:

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

20. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: *(continued)*

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

	2019 US$'000	2018 US$'000
Within 1 month	26,738	17,499
1 to 2 months	9,677	9,868
2 to 3 months	4,834	4,977
Over 3 months	1,003	3,322
	42,252	35,666

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

	2019 US$'000	2018 US$'000
At beginning of year	308	340
Impairment losses/(reversal of impairment losses) (note 9)	841	(32)
At end of year	1,149	308

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

20. TRADE AND BILLS RECEIVABLES *(continued)*

Notes: *(continued)*

(c) *(continued)*

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

At 31 December 2019

	Ageing			
	Less than 1 month US$'000	**1 to 3 months US$'000**	**Over 3 months US$'000**	**Total US$'000**
Category:				
(i) Customers with good credit	**42,188**	**24**	**34**	**42,246**
(ii) Customers with credit deterioration	**–**	**–**	**1,149**	**1,149**
Gross trade receivables	**42,188**	**24**	**1,183**	**43,395**
Less: Expected credit losses	**–**	**–**	**(1,149)**	**(1,149)**
Net trade receivables	**42,188**	**24**	**34**	**42,246**
ECL rates	**0%**	**0%**	**97.1%**	**2.6%**

At 31 December 2018

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

(d) The Group entered into a trade receivable factoring arrangement (the "**Arrangement**") and transferred certain trade receivables from a designated customer to a bank. Under the Arrangement, the Group will not be required to reimburse the bank for loss of interest if the trade debtor had late or default payments. Since the trade receivables factored to the bank were non-recourse, the Group had transferred the significant risks and rewards relating to these receivables, and the factored trade receivables met the criteria of derecognition. Therefore, the Group derecognised the full carrying amount of the trade receivables in these financial statements as at 31 December 2018. No trade receivables were factored to the bank at 31 December 2019.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 US$'000	2018 US$'000
Prepayments	**1,975**	1,058
Deposits and other receivables	**5,821**	6,293
Tax reserve certificates (note)	**3,147**	3,147
	10,943	10,498
Portion classified as current assets	**(9,012)**	(8,694)
Non-current portion	**1,931**	1,804

Note: Tax reserve certificates of the Group as at 31 December 2019 amounting to HK$24,550,000 (2018: HK$24,550,000) (equivalent to approximately US$3,147,000 (2018: US$3,147,000)) are tax reserve certificates purchased from the Inland Revenue Department of Hong Kong (the "**IRD**"). During the year ended 31 December 2018, the IRD issued notices of assessment to the Group for the years of assessment 2015/2016 to 2016/2017 following queries in connection with the offshore claim position of a subsidiary. The Group had lodged an objection against these tax assessments and had applied to hold over the tax demanded. The IRD had agreed to the holdover of the additional tax demanded, subject to the purchase of tax reserve certificates. The purchase of tax reserve certificates did not prejudice the Group's tax position and in the opinion of the directors of the Company, adequate tax provision had been made in these financial statements.

22. CASH AND BANK BALANCES

	2019 US$'000	2018 US$'000
Cash and bank balances other than time deposits	**36,735**	56,657
Time deposits	**14,325**	7,115
Cash and bank balances	**51,060**	63,772

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between 3 months and 12 months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(b) At 31 December 2019, cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to US$16,944,000 (2018: US$12,948,000), of which US$9,451,000 (2018: US$12,072,000) were kept or deposited in banks in Mainland China. The RMB is not freely convertible into other currencies in Mainland China. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

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

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

	2019 US$'000	2018 US$'000
Within 1 month	**13,432**	15,097
1 to 2 months	**3,622**	3,339
2 to 3 months	**528**	215
Over 3 months	**38**	414
	17,620	19,065

24. OTHER PAYABLES AND ACCRUALS

	Notes	2019 US$'000	2018 US$'000
Accruals		**10,872**	13,047
Other payables	(a)	**4,416**	4,246
Contract liabilities	(b)	**680**	572
		15,968	17,865

Notes:

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

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

25. DEFERRED TAX

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

	Arising from				
	Depreciation allowance in excess of related depreciation US$'000	Defined benefit obligations US$'000	Impairment of assets US$'000	Accrual and other US$'000	Net deferred tax assets US$'000
At 1 January 2018	(67)	187	2	73	195
Deferred tax credited/(charged) to the profit or loss during the year (note 12)	42	(1)	–	681	722
Deferred tax charged to other comprehensive income	–	(48)	–	–	(48)
Exchange realignment	(2)	(5)	–	(30)	(37)
At 31 December 2018 and 1 January 2019	(27)	133	2	724	832
Deferred tax credited/(charged) to profit or loss during the year (note 12)	(40)	(4)	–	(628)	(672)
Deferred tax charged to other comprehensive income	–	(4)	–	–	(4)
Exchange realignment	16	–	–	37	53
At 31 December 2019	51	125	2	133	209

Notes:

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

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised amounted to approximately US$11,493,000 (2018: US$10,890,000) as at 31 December 2019.

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

26. DEFINED BENEFIT OBLIGATIONS

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

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

	2019			2018		
	Defined benefit obligations US$'000	**Fair value of plan assets US$'000**	**Net benefit liability US$'000**	Defined benefit obligations US$'000	Fair value of plan assets US$'000	Net benefit liability US$'000
At 1 January	**1,321**	**(534)**	**787**	1,618	(514)	1,104
Pension cost charged/(credited) to profit or loss:						
Current service cost	**6**	**–**	**6**	6	–	6
Past service cost	**(18)**	**–**	**(18)**	–	–	–
Interest cost	**13**	**(5)**	**8**	16	(5)	11
	1	**(5)**	**(4)**	22	(5)	17
Remeasurement losses/(gains) in other comprehensive income:						
Return on plan assets (excluding amounts included in net interest expense)	**–**	**(18)**	**(18)**	–	(15)	(15)
Actuarial losses arising from changes in financial assumptions	**36**	**–**	**36**	–	–	–
Actuarial gains arising from experience adjustments	**(47)**	**–**	**(47)**	(273)	–	(273)
	(11)	**(18)**	**(29)**	(273)	(15)	(288)
Benefits paid	**(65)**	**65**	**–**	–	–	–
Contributions from the employer	**–**	**(18)**	**(18)**	–	(17)	(17)
Exchange realignment	**23**	**(10)**	**13**	(46)	17	(29)
At 31 December	**1,269**	**(520)**	**749**	1,321	(534)	787

26. DEFINED BENEFIT OBLIGATIONS *(continued)*

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

	2019 US$'000	2018 US$'000
Equity investments	312	314
Debt instruments	58	44
Cash and cash equivalents	87	75
Others	63	101
	520	534

(c) Principal assumptions

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

	2019	2018
Discount rate	0.70%	1.00%
Expected rate of salary increase	3.00%	3.00%

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

	Increase in rate %	Increase/ (decrease) in net defined benefit obligations US$'000	Decrease in rate %	Increase/ (decrease) in net defined benefit obligations US$'000
At 31 December 2019				
Discount rate	0.25	(29)	0.25	30
Expected rate of salary increase	0.25	29	0.25	(29)
At 31 December 2018				
Discount rate	0.25	(34)	0.25	35
Expected rate of salary increase	0.25	35	0.25	(33)

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

At 31 December 2019, the expected contribution to be made within the next 12 months out of the defined benefit obligations was US$26,000 (2018: US$27,000).

27. SHARE CAPITAL

	2019	2018
Shares		
Authorised (notes (a) and (b)):		
–100,000,000,000 ordinary shares of HK$0.01 each	**HK$1,000,000,000**	HK$1,000,000,000

	2019 US$'000	2018 US$'000
Issued and fully paid:		
–1,120,000,000 ordinary shares of HK$0.01 each	**1,436**	1,436

A summary of movements in issued share capital of the Company during the years ended 31 December 2019 and 2018 is as follows:

	Notes	Number of ordinary shares in issue US$1 each	Number of ordinary shares in issue HK$0.01 each	Issued capital US$'000	Share premium account US$'000
Issued and fully paid:					
At 1 January 2018		1,000,000	–	1,000	–
Issuance of new shares on 19 June 2018	(b)	–	780,000,000	1,000	–
Repurchase and cancellation of shares on 19 June 2018	(b)	(1,000,000)	–	(1,000)	–
Issue of new shares pursuant to a capitalisation issue in connection with the Global Offering	(c)	–	60,000,000	77	(77)
Issue of new shares pursuant to the Global Offering	(d)	–	280,000,000	359	31,790
Expenses incurred in connection with the Global Offering	(d)	–	–	–	(3,080)
At 31 December 2018, 1 January 2019 and 31 December 2019		–	1,120,000,000	1,436	28,633

Notes:

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

27. SHARE CAPITAL *(continued)*

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

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

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

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

28. SHARE OPTION SCHEME

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

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

28. SHARE OPTION SCHEME *(continued)*

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

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

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

No share options were granted during 2018 and 2019, and hence, there was no outstanding option under the Share Option Scheme as at 31 December 2018 and 2019.

29. RESERVES

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

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

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

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of US$1,670,000 and US$1,670,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Lease liabilities US$'000	Dividend payable US$'000
As at 31 December 2018	–	–
Effect of adoption of HKFRS 16	9,917	–
At 1 January 2019 (restated)	9,917	–
Changes from financing cash flows	(2,271)	(7,134)
Dividends declared	–	7,134
New leases	1,670	–
Termination of a lease	(260)	–
Interest expense	566	–
Exchange realignment	(65)	–
At 31 December 2019	9,557	–

2018

	Dividend payable US$'000
At 1 January 2018	35,000
Changes from financing cash flows	(35,000)
At 31 December 2018	–

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 US$'000
Within operating activities	1,010
Within financing activities	2,271
	3,281

31. COMMITMENTS

(a) Operating lease commitments as at 31 December 2018

The Group leased certain of its factories and warehouses under operating lease arrangements, with the leases negotiated with terms ranging from two to eight years.

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

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

(b) The Group has various lease contract, that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are US$202,000 due within one year, US$2,161,000 due in the second to fifth years, inclusives, and US$1,742,000 due after five years.

32. RELATED PARTY DISCLOSURES

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

	Notes	2019 US$'000	2018 US$'000
A director of the Company			
Rental expenses	(i)	–	1
A company beneficially owned by certain directors of the Company			
Rental expenses*	(i)	–	230
Subsidiaries of a company with significant influence over the Company			
Management and consultancy service fees paid	(iii)	–	88
Public facility maintenance expenses*	(iv)	157	157
Utility expenses and other charges*	(iv)	512	478
Shuttle bus service expenses*	(i)	315	391
Building management expenses*	(ii)	160	147

Notes:

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

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

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

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

* These transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Upon adoption of HKFRS 16, the lease of the office premises from the related company was recognised as a right-of-use asset and a lease liability and a lease payment of US$248,000 was paid during the year ended 31 December 2019.

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

	2019 US$'000	2018 US$'000
Short term employee benefits	1,316	1,138
Discretionary and performance related bonuses	688	686
Defined contribution schemes contributions	12	16
Total compensation paid and payable to key management personnel	2,016	1,840

33. FINANCIAL INSTRUMENTS BY CATEGORY

Other than an equity investment being designated as a financial asset at fair value through other comprehensive income, all financial assets and liabilities of the Group as at 31 December 2018 and 2019 are classified as financial assets and liablities at amortised cost, respectively.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Fair value hierarchy

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
At 31 December 2019				
Equity investment at fair value through other comprehensive income	**–**	**–**	**2**	**2**
At 31 December 2018				
Equity investment at fair value through other comprehensive income	–	–	2	2

The Group did not have any financial instruments measured at fair value as at 31 December 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities (2018: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

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

If interest rates had been 100 basis points higher (lower) and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2019 would have increased (decreased) by US$511,000 (2018: US$607,000).

(b) Foreign currency risk

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

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

	Increase/(decrease) in profit before tax	
	2019	2018
	US$'000	US$'000
If RMB weakens against US$ by 5%	**(427)**	(69)
If RMB strengthens against US$ by 5%	**427**	69
If VND weakens against US$ by 5%	**331**	262
If VND strengthens against US$ by 5%	**(331)**	(262)

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

(c) Credit risk

Maximum exposure and year-end staging

At the end of the reporting period, six (2018: six) customers of the Group accounted for approximately 58% (2018: 46%) of the Group's trade debtors.

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

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

	12-month ECLs	Lifetime ECLs	
	Stage 1 US$'000	Simplified approach US$'000	Total US$'000
As at 31 December 2019			
Trade receivables*	**–**	**43,395**	**43,395**
Bills receivable	**6**	**–**	**6**
Financial assets included in prepayments, deposits and other receivables – Normal**	**5,821**	**–**	**5,821**
Cash and bank balances – Not yet past due	**51,060**	**–**	**51,060**
	56,887	**43,395**	**100,282**
As at 31 December 2018			
Trade receivables*	–	35,974	35,974
Bills receivable	–#	–	–#
Financial assets included in prepayments, deposits and other receivables – Normal**	6,293	–	6,293
Cash and bank balances – Not yet past due	63,772	–	63,772
	70,065	35,974	105,731

\# Less than US$500.

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

(c) Credit risk *(continued)*

***Maximum exposure and year-end staging** (continued)*

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

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

(d) Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

			2019		
	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Lease liabilities	667	1,740	7,891	818	11,116
Trade and bills payables	17,582	38	–	–	17,620
Other payables and accruals	3,949	–	–	–	3,949
	22,198	1,778	7,891	818	32,685

			2018		
	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Trade and bills payables	18,651	414	–	–	19,065
Other payables and accruals	3,551	–	–	–	3,551
	22,202	414	–	–	22,616

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

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its shareholders or issue new shares to increase capital. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

36. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of novel coronavirus in January 2020, the PRC government has implemented various anti-epidemic control to mitigate the impact of the virus. Due to those control measures, the Group's PRC production plant and offices did not resume to work immediately after Lunar New Year until 17 February 2020.

As the Group's has reallocated most of its production capacity to Vietnam and Cambodia, the aforementioned suspension of operation of the PRC production plant did not have material impact on the Group.

The directors will continue to monitor the situation and consider that it is not practicable to quantify the financial impact to the Group at the date of these financial statements.

37. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17 and related interpretations.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**12,891**	14,114
Prepayments	**–**	104
Total non-current assets	**12,891**	14,218
CURRENT ASSETS		
Prepayments, deposits and other receivables	**162**	334
Due from subsidiaries	**59,247**	34,316
Cash and bank balances	**15,592**	33,661
Total current assets	**75,001**	68,311
CURRENT LIABILITIES		
Other payables and accruals	**813**	702
Due to subsidiaries	**20,799**	–
Total current liabilities	**21,612**	702
NET CURRENT ASSETS	**53,389**	67,609
Net assets	**66,280**	81,827
EQUITY		
Issued capital	**1,436**	1,436
Reserves (note)	**64,844**	80,391
Total equity	**66,280**	81,827

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

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

	Share Premium Account US$'000	Retained profits US$'000	Total US$'000
At 1 January 2018	–	57,019	57,019
Loss for the year and total comprehensive loss for the year	–	(5,261)	(5,261)
Issue of new shares pursuant to the Capitalisation Issue in connection with the Global Offering	(77)	–	(77)
Issue of shares pursuant to the Global Offering	31,790	–	31,790
Expenses incurred in connection with the Global Offering	(3,080)	–	(3,080)
At 31 December 2018 and 1 January 2019	28,633	51,758	80,391
Loss for the year and total comprehensive loss for the year	–	(8,413)	(8,413)
Final 2018 dividend	–	(2,140)	(2,140)
Special 2018 dividend	–	(4,994)	(4,994)
At 31 December 2019	28,633	36,211	64,844

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

Five-Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**223,161**	221,849	258,498	220,457	225,342
Profit before tax	**2,467**	9,067	25,630	22,535	17,457
Income tax	**(3,033)**	(1,697)	(4,548)	(3,940)	(3,639)
Profit/(loss) for the year	**(566)**	7,370	21,082	18,595	13,818

ASSETS, LIABILITIES AND EQUITY

	At 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
TOTAL ASSETS	**188,562**	190,072	199,941	172,350	165,415
TOTAL LIABILITIES	**54,117**	47,471	91,616	52,173	52,488
NET ASSETS	**134,445**	142,601	108,325	120,177	112,927
TOTAL EQUITY	**134,445**	142,601	108,325	120,177	112,927

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